FREE

The San Francisco

Bay Guardian

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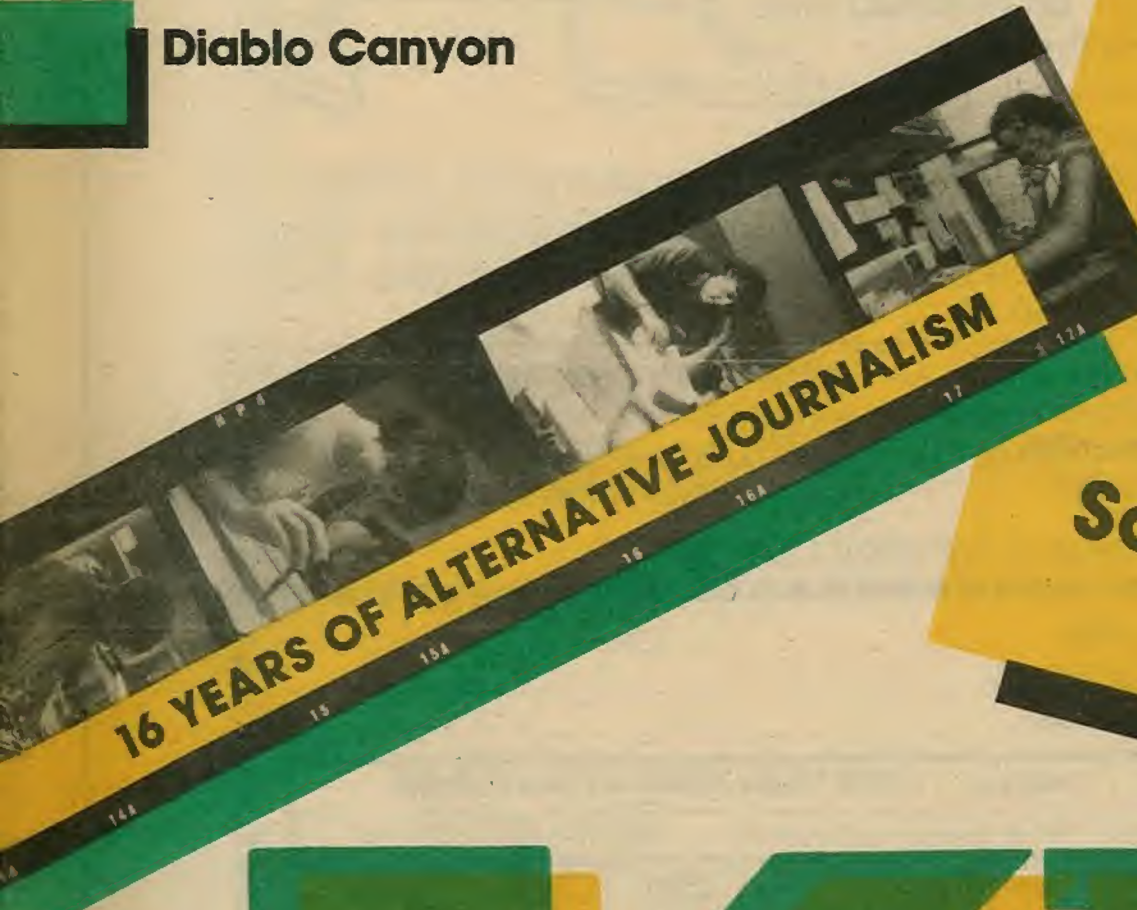
SINCE 1966. THE LARGEST CIRCULATION NEWSWEEKLY IN NORTHERN CALIFORNIA.

The only way to lower your electric rates

Who really owns PG&E?

Diablo Canyon



The biggest scandal in San Francisco history

16TH ANNIVERSARY EDITION

THE HISTORY OF THE $44 MILLION A YEAR PG&E/CITY HALL/RAKER ACT SCANDAL

RATING THE RATES: PG&E VS. 11 PUBLIC POWER CITIES IN CALIFORNIA

PROP. K: THE CASE FOR A FEASIBILITY STUDY TO MUNICIPALIZE PG&E

Where are they now?

In last year's 15th anniversary issue of the Bay Guardian, we listed 104 editorial and art department ex-staffers, plus some former staff members from other departments who have continued to work in media. This year we are including ex-staffers from the advertising, circulation and general office departments, as well as updating and catching some omissions from last year. After each name we have listed the former Guardian position, then the current occupation of each ex-staffer. We plan to do this listing every year in our October anniversary issue and we urge all ex-staffers to drop us a note in late summer or early fall to let us know what they're doing.

PAT AGUILERA: Bookkeeper. Accountant & MBA student at Cal State Hayward.
ALAN BARRENTINE: Classified Ad Sales Rep. Foreman at printing plant, Richmond.
SANDEE BASS: Display Ad Sales Rep. Lives in Maui, Hawaii.
DONNA BERGER: Display Ad Sales Rep. Sales Rep for Ulster Scientific, SF.
MARK BEST: Promotion. Real Estate Salesman for Colonial Realty.
KERRIGAN BLACK: Entertainment Writer. Professional pianist & singer. Creator & owner of "For a Song," a songwriting service.
BETH BODENSTEIN: Display Ad Sales Rep. Second-year law student at U. of Miami.
KATE BRISLIN: Bookkeeper. Plays banjo with Blue Flame String Band. Just released bluegrass record on Flying Fish label, SF.
ANNE BRUNN: Artist. Art Director, Estee Lauder, NYC.
DAVID BURNOR: Classified Ad Sales Rep. Subscriptions Mgr. of Co-Evolution Quarterly, Sausalito.
PETER CARROLL: Book Editor. Author of "It Seemed Like Nothing Happened: The Tragedy & Promise of America in the 1970's," a book scheduled for publication by Holt, Rinehart & Winston in Oct.
CANDACE CLOUD: Editorial Asst. Admin. Asst. for Sierra Club Legal Defense Fund, SF.
ANDREA E. COAR: Typesetter. Proofreader/Type Coordinator for *Scientific American*, Pittsburgh.
CANDACE COAR: Proofreader. Typesetter for Turnaround Graphics, SF.
SUSAN COOMES: Receptionist. Sells plants at Magic Gardens Nursery, Berkeley.
BREDA COURTNEY: Asst. to the Publisher. Pres. of Mods, a service bureau for physicians, Union City.
PAT DAVIS: Display Ad Sales Rep. Teacher, SF City College.
NANCY DESTEFANIS: Display Ad Sales Rep. Lawyer in private practice near SF City Hall.
ELOISE WOLFF DELUCCHI: Display Ad Sales Rep. Mother of 4-yr.-old Daniel, Pacifica.
PATRICK DOUGLAS: City Editor. Freelance writer, SF.
JANNIE DRESSER: Asst. to the Publisher. Heads Media Campaign for Nuclear Weapons Freeze Campaign, Oakland.
JOAN DRUMMOND: Production Mgr. Proprietor of mail-order food business, student at Katy Gibbs Secretarial School, Newburyport, Mass.
KIM DUNSTER: Production Mgr. Pre-med student, SF State.
MICHAEL ELINSON: Display Ad Sales Rep. Senior in Psychotherapy, SF State.
PETE ENGARDIO: Production Asst. Student at Graduate School of Journalism, U. of Missouri.
SUSAN FERRELL: Associate Editor. Law school student, U. of Arizona, Tucson.
BARBARA FREEMAN: Display Ad Sales Rep. Ph.D. candidate at UC Santa Cruz.
KATI FREW: Editorial Asst. Architectural Secy., SF.
BARBARA GARZA: Artist/Production Mgr. Freelance graphic artist, mother of Ellen, 4, and Kerry, 2, Santa Rosa.
A. G. GERMANO: Display Ad Sales Rep. District Mgr. of *Computer Decisions* Magazine, San Bruno.
BETSY GLECKLER: Listings Writer. Design & Art Production at *Runner's World* magazine. Member of Plum Design Collective.
LINDA HANGER: Distribution Mgr. Admin. Asst. Sales Marketing at Osborne McGraw-Hill, Berkeley.
BETTY HEY: Listings Writer. Asst. Mng. Editor of *Scene* magazine, SF.
MARINA HIRSCH: Associate Editor. Freelance writer, Berkeley.
DON HUGHES: Classified Ad Mgr. Disc jockey with Oregon radio station.
TRACEY HUGHES: Office Assistant. Living in London.
DAVID JOHNSTON: Reporter. Reporter, SF Examiner.
KAREN KARTEN: Classified Ad Sales Rep. Administrator-Technical Support for ITR computer firm, SF.

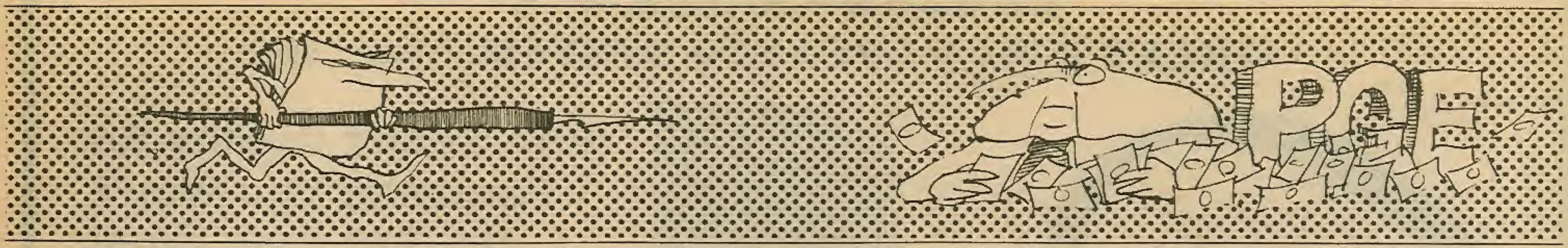
(top to bottom:)

Jenepher Stowell leads the Guardian contingent, Columbus Day parade, 1974.

Guardian staff on Twin Peaks, December 1974.

Managing Editor Mike Miller & Investigative Reporter David Johnston, 1979.

GARY KAMIYA: Courier. Phi Beta Kappa graduate student in English at UC Berkeley.
MICHAEL KETCHNER: Editorial Intern. Assoc. Editor of *Silver & Gold Report*, an economic newsletter, SF.
JO LIANA KING: Production Mgr. Mgr./owner Franciscan Systems & Graphics, a typesetting shop, SF.
DEBORAH KLEIN: Distribution Mgr. Owner of Klein's Deli in SF and Heartwood Inn on the Russian River.
TOM LEA: Marketing Director. Annual reports and advertising photography, SF.
ARIELLE LEONARD: Display Ad Sales Rep. Public relations account exec., Berkeley.
MAUREEN LETTON: Ad Secy. Secy. at J. Walter Thompson, Graphics student at UC Berkeley.
CAROLYN LEVITT: Bookkeeper. Mother of Benny, 4, and Noah, 4 mos., Manchester, MO.
ED MABRY: Credit Mgr. Sales Admin. Clerk at Dolby Labs, SF.
FIONA MACKENZIE: Classified Ad Sales Rep. Expecting 2nd baby in Nov., SF.
ANNE MASON: Display Ad Assistant. Married and living in England.
KEVIN McCHESNEY: Credit Mgr. Accounting Clerk, Sonoma Valley Hospital.
EILEEN MURRAY: Receptionist. Program information desk of the Central YMCA, SF.
PATRICK MILLER: Typesetter. Freelance typesetter & writer. Published in *Cats*, *New Age* & *Wadsworth Gazette*, Berkeley.
BEVERLY NAUMAN: Display Ad Sales Rep. National ad Acct. Exec. for Chronicle/Examiner.
LINDA NELSON: Classified Ad Sales Rep. Owns alterations business, Berkeley.
GLORIA OCKENFELS: Display Ad Sales Rep. Studying for BA at U. of Penn., Philadelphia.
LANE OLSON: Classified Ad Sales Rep. Graphic artist with Elephant Graphics, SF.
CHARLI ORNETT: Senior Designer. Design Associate for *Runner's World* and *Fit* magazines. Member of Plum Design Collective, SF.
GEORGIA OTTERSON: Distribution Mgr. Events coordinator for Bread & Roses, lives in Marin.
CAROL PLADSEN: Display Ad Sales Rep. Associate Publisher at Nolo Press, Berkeley.
SHYRL PONDER: Distribution Mgr. Publicity Coordinator at Theatre on the Square, SF.
JENNIFER POOLE: Calendar Writer. Typing & editing service for film & play scripts, SF.
LOIS RABINOWITZ: Display Ad Sales Rep. Mother of baby girl. Proprietor of Arline Promotions - advertising specialties, Los Angeles.
SANDY REEVES: Display Ad Sales Rep. Ad Sales, Rohnert Park-Cotati Clarion.
DUFF REITER: Production Mgr. Asst. Planning Mgr. of Merchandising for Mervyn's dept. store.
PAM RHODES: Display Ad Sales Rep. Product Mgr., Atari, Sunnyvale.
JULIE CLEROU RIEGEL: Display Ad Sales Rep. Managing Director of Atari Publications, Sunnyvale.
MARCELO RODRIGUEZ: Reporter. Co-writer of book on Yerba Buena Center, member of nat. exec. bd. of organizing committee for Nat. Writers Union, contributing writer to *SF* magazine.
KATHI ROISEN: Display Ad Sales Rep. Media Planner, J. Walter Thompson, SF.
VINCENT ROMANIELLO: Advertising Designer. Art Director of *Metro* magazine, SF.
KATHY SALAMON: Editorial Asst. Legal Secretary, SF.
HARRIET SALLEY: Proofreader & Writer. Teacher living outside of Taos, NM.
CRAIG SCOTT: Credit Mgr. Account Exec. in London ad agency.
BARBARA SHAW: Distribution Mgr. Asst. Media Planner at J. Walter Thompson, SF.
MERRILL SHINDLER: Writer/Critic. Radio writer (American Top 40) and TV writer (Portrait of a Legend). Also LA Magazine film critic, music reviewer for King Features and LA Herald Examiner restaurant reviewer.
RENEE SIMI: Advertising Coordinator. Marketing Director, Berkeley Repertory Theatre.
DENNY SMITHSON: Distribution. KPFA talk show host and works at Cody's Books, Berkeley.
JENEPHER STOWELL: Display Ad Sales Rep. Artist. Printing paper consultant at Blake, Moffitt & Towne, SF.
DAVID SWEET: Office Assistant. Editorial Staff of Indian Historical Press, Co-leader Amnesty Int'l. group, SF.
LINDA J. SZYNISZEWSKI: Production Mgr./Advertising Mgr. Owner of Elephant Graphics, SF.
SUSAN THOMPSON: Senior Designer. Design Exec. on computer accts. with Reliable Inc., Graphic Communications, SF.
JOE VOYLES: Advertising Director. National Sales Mgr. for Twin Cities Reader. Minneapolis and Midwest Mgr. of New National Rep firm for Assoc. of Alternative Newsweeklies.
MICHELLE WARDEN: Cashier/Credit Mgr. Accountant for planning & engineering firm, psychology student at SF State.
ART WELLER: Artist. Ad designer for *BAM* magazine, SF.
CARMA WINFREY: Subscription Mgr. Technical Field Support Rep. for computer firm in Palo Alto.



The Bay Guardian vs. PG&E — the 16 years' war

With this issue, the Bay Guardian celebrates its 16th year of publishing. Sixteen years! When the Guardian began publishing in 1966, the Transamerica tower didn't spike upwards from the Financial District skyline. There were houses, hotels and viable small businesses where the Yerba Buena Center wasteland and the Moscone Center now stand. There were kids zipping down the long slide on gunny sacks at Playland-on-the-Beach and elderly Filipinos living proudly in the International Hotel where now there are big, gaping holes in the ground. Artists were living peacefully in the Goodman Building. People were working downtown before the blizzard of highrises and the ever increasing hassles of Manhattanization.

In the Guardian's more than a decade and a half, we have seen more than 50 publications come, many with ambitious fanfares and showers of money, and later quietly go. We have seen editors and publishers and news directors and station managers come and go, giving the Guardian founders, Editor and Publisher Bruce B. Brugmann and Associate Publisher and Business Manager Jean Dibble, virtually the longest and most continuous tenure in San Francisco media.

Fashions have changed. Lifestyles have changed. The very language itself has changed. But there have been constants as well and the bound volumes of the Bay Guardian are a chronicle of the significant issues—Vietnam, PG&E, nuclear power, Manhattanization, the fight to save the world's greatest city—that have faced San Francisco, the Bay Area and in microcosm the nation over the past 16 years.

In celebration of our anniversary, in recognition that the battles we have fought are still far from won, in the spirit of our first motto which still remains above the staff masthead, "it's the duty of a newspaper to print the news and raise hell," the Bay Guardian is devoting this commemorative issue to one of our most famous theme stories, the PG&E/City Hall/Raker Act scandal.

For 70 years, San Franciscans have been the target of one of the biggest and most costly ongoing scandals in U.S. history.

Acting directly contrary to the expressed will of the citizens and in defiance of the U.S. Congress, the federal Raker Act of 1912, the San Francisco city charter of 1932 and the U.S. Supreme Court mandate of 1940, city officials and the Pacific Gas & Electric Company have colluded for generations to keep San Francisco from getting its own cheap Hetch Hetchy power and instead to force the city's residential and commercial ratepayers to buy PG&E's ever more expensive private power.

It is a scandal unprecedented in American history, because Congress had never before and has never again granted a concession for a city (San Francisco) to build a dam in a beautiful valley (Hetch Hetchy) in a beautiful national park (Yosemite). The annual loss to the city is $48 million (the amount PG&E yanks out in profit). And the aggregate loss to the city over the past 70 years is billions of dollars—billions lost in cheap electric rates, lower taxes, general fund subsidies and the other benefits of public power.

And billions that went instead to the stockholders of PG&E, which are largely out-of-state banks, insurance companies and financial concerns, not people who live and work in San Francisco.

Put simply, every time you flip a light switch or turn on the radio in San Francisco, you are overpaying on electricity. You are a helpless victim of the PG&E/City Hall/Raker Act scandal, right now, in October of 1982, and PG&E/City Hall and their downtown business allies and their media support (notably the Examiner/Chronicle) want to keep you that way for evermore. They are willing to spend what it takes, and use whatever power is necessary, to get the job done.

That's one reason we believe we've proven in the past 16 years why an independent alternative newspaper like the Guardian is essential for San Francisco. While the Examiner/Chronicle have supported their fellow power monopoly and their fellow Chamber of Commerce heavy in the name of "objective" journalism, the Guardian has taken on the story and fought to enforce the Raker Act, kick PG&E out of City Hall, restore some law and order in the territory and bring our own cheap Hetch Hetchy power home to our people.

Joe Neilands, a veteran in the battle against PG&E's move to jam a nuclear plant on Bodega Bay, got a bead on PG&E power and put together our original bombshell story in 1969. Then Pete Petrakis rolled up his sleeves as our utilities editor and tracked PG&E in story after story until he left for Washington, D.C., in 1975. Managing Editor Mike Miller added his wickedly humorous touches during the late 1970s. Investigative Reporter David Johnston rolled up a spectacular series of investigations on Sup. "Fighting Bob" Mendelsohn, PG&E's man in City Hall and Interior, that ultimately torpedoed Mendelsohn's presidential nomination as the No. 2 man in Interior. (See the chronology, 1977–80.) Editor Bruce B. Brugmann kept throwing the logs on the editorial fires.

Today, a new task force, noted in the adjoining box, was at work to bring you the damning indictment in this edition.

We looked upon the PG&E/City Hall story as a key political and journalistic litmus test issue and as a way to make the city's invisible government visible and put the pressure on. It not only helped disclose for us who was selling out to whom and for what and how fast, but it demonstrated that the people helping PG&E/City Hall perpetuate the Raker Act scandal are the same people and the same structure of political power that tilts City Hall toward the Bank of America/Wells Fargo/Crocker towers downtown and away from the neighborhoods. They're the same people who are wrecking the city with pellmell Manhattanization and forcing the residents to subsidize the costs with high rents, impossible housing prices, deteriorating city services and ever-increasing taxes, Muni fares and service fees.

In short, we believe the more the Guardian can make the invisible government visible and keep the pressure on, the better the chance to stop the Raker Act scandals and highrise booms and the other from-the-top-of-the-Transamerica-Pyramid-down moves that are wrecking San Francisco.

We appreciate your continuing support. And we'll continue to try to produce the best in alternative journalism for many anniversaries to come. ■

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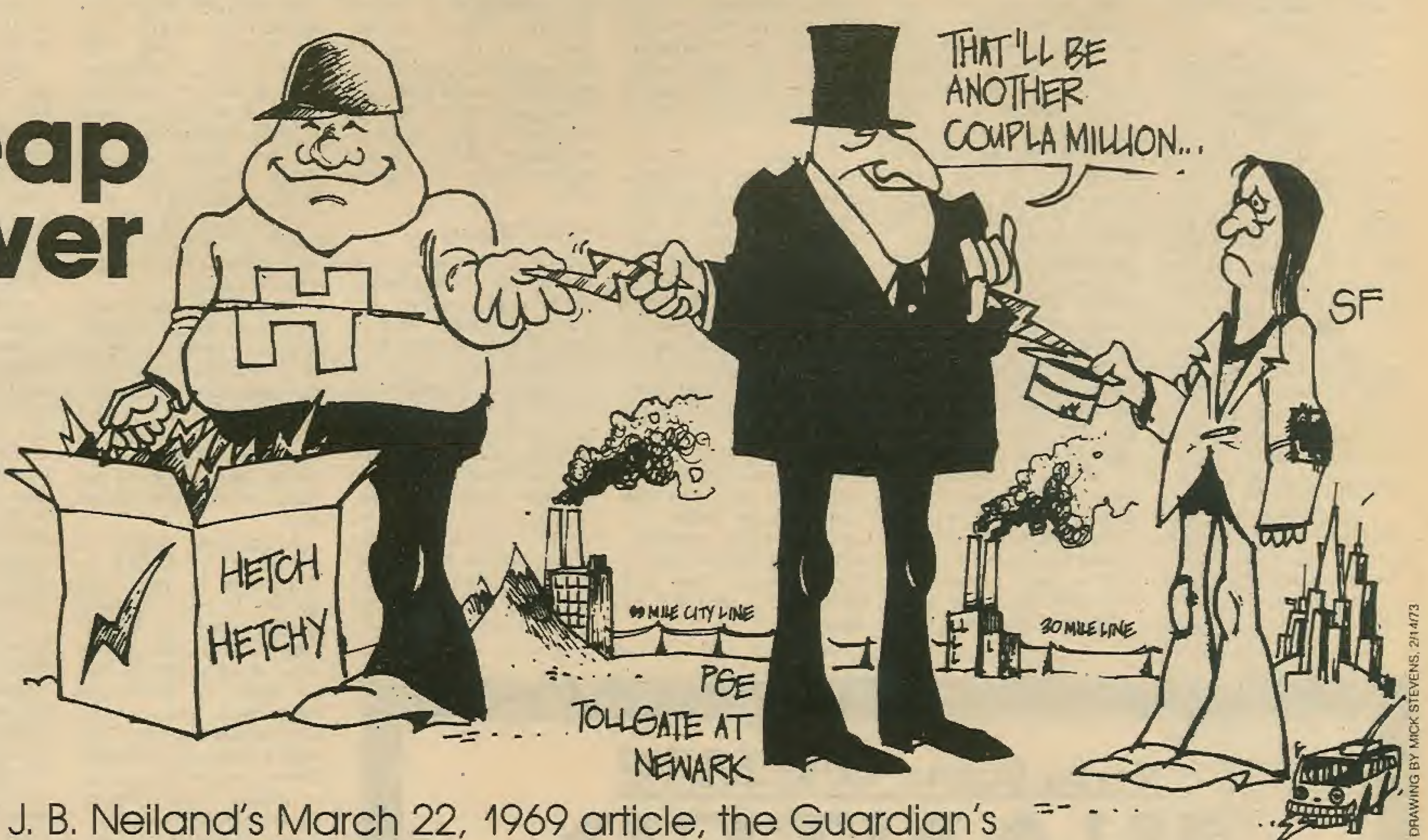
Departments

16th Anniversary Task Force

The Guardian's 16th anniversary special edition was prepared by the PG&E Task Force: Bruce B. Brugmann, Bruce Dancis, E. J. Flynn, Alan Kay, Alan Ramo and Tim Redmond. Assistance was provided by Chris Gaillardet, Michael Miller, Joe Neilands and Peter Petrakis.

How PG&E robs San Francisco of cheap power



Excerpt of J. B. Neiland's March 22, 1969 article, the Guardian's first in-depth story on the PG&E/Raker Act scandal

BY J. B. NEILANDS

A few months before he died last year, Franck Havenner sat up in his bed in a nursing home in San Francisco and told me of how the Pacific Gas & Electric Co. swindled San Francisco out of hundreds of millions of dollars of cheap hydroelectric power.

The story was incredible: PG&E and its political allies had defeated eight successive bond issues to establish a municipal electric system in San Francisco and grant city residents and businesses the benefit of low cost power produced by the city's Hetch Hetchy water system in the Sierras.

The result: San Francisco has paid through the nose to PG&E for its power and the city loses about $30 million a year in profits it would get from a public system.

Havenner, a longtime SF supervisor and later a U.S. representative, said: "In the beginning, we had the support of some newspapers, but in the end the PG&E was able to buy them all out with their newspaper ads."

The PG&E/newspaper/political combination got stronger with each bond issue. Today, you never hear about the city's sacred pledges to build a public power system.

How could this happen? How could Sacramento, Los Angeles, Palo Alto and a dozen other California cities get their own lucrative electric distribution systems when SF couldn't even get one when it had its own power? More: How could this happen when it is a specific condition of federal law for San Francisco, unlike any other American city, to build its own municipal electric distribution system?

Abe Ruef's graft in 1906 was peanuts, birdseed, compared to this.

1900: a city desperate for water

The story goes back to the turn of the century when San Francisco desperately needed an adequate water supply. Fifteen alternate sites were crossed off before Mayor Phelan filed for water rights on the Tuolumne River with money from his own pocket.

Unfortunately, however, the site lay inside Yosemite National Park and the proposed dam would flood exquisite Hetch Hetchy Valley.

Conservationists were furious and John Muir raged: "Dam Hetch Hetchy! As well dam for water tanks the people's cathedrals and churches; for no holier temple has ever been consecrated to the heart of man." Understandably, Congress was reluctant to grant the brutal intrusion into Yosemite.

The impasse was resolved by Rep. John Edward Raker, from the state's second (Mountain) district. He proposed to let San Francisco take the water from Yosemite, but in the process generate and distribute low-cost hydroelectric power.

It was the only federal grant of its kind ever made by Congress and it is certain, as Interior Secretary Harold Ickes later emphasized, that it would never have been made without crucial conditions: that both water and power go directly to consumers and that no profits whatsoever from this unprecedented public grant go to private utilities.

The act's language was explicit and there was no doubt, among supporters or opponents, about the public power intent of Congress. Thus on the floor debate:

"Mr. Sumners: Is it the purpose of this bill to have San Francisco supply electric power and water to its own people?

"Mr. Raker: Yes.

"Mr. Sumners: Or to supply these corporations, which will in turn supply the people?

"Mr. Raker: Under this bill, it is to supply its own inhabitants first . . ."

Muir and other militant conservationists were bitterly disappointed by the Raker Act and the loss of Hetch Hetchy, but other conservationists, like Sen. George Norris of Nebraska, considered it a reasonable compromise.

The Raker Act was the Magna Carta for cheap public power. It was thought to be tightly drawn in the public interest and virtually impervious to subversion by private power trusts. Its basic intent was to establish a municipal power distribution system in San Francisco, but it also allowed the sale of power to public agencies and recognized the prior claims of the nearby Turlock and Modesto Irrigation Districts.

However, the act stipulated, in strict terms especially irritating to the private power lobby, that any attempt to transfer the water or power to a "person, corporation or association" for resale could result in revocation of the federal grant.

Water, not power

In developing water, San Francisco has observed reasonable compliance with the Raker Act on the record. It has had little trouble passing expensive water bond issues to construct the enormous Hetch Hetchy system of pipes and tunnels that delivers the water across the Central Valley, under San Francisco Bay and into the Peninsula's Crystal Springs Reservoir. There's been no reluctance to "go into the water business" in San Francisco.

In developing power, however, San Francisco has gone up against fortress PG&E and has failed miserably in complying with the Raker Act. Ickes was here on Oct. 24, 1934, for the celebration of the first flow of Hetch Hetchy water to reach Crystal Springs. He mused in his diary:

"San Francisco also develops power from this water . . . . Unfortunately, private utilities have such a grip on San Francisco that it cannot actually sell its own power to users in San Francisco. I held there was a violation of the Act . . . the newspapers and most of the politicians have seen to it, by propaganda and other devious methods, that a method of complying with the Act has been defeated."

Norris lamented in his biography that, as a supporter of the Raker Act, he had "underestimated the resourcefulness" of PG&E. "When I spoke so hopefully and so confidently (not only I but many others) it was incredible that a great utility could control the policies of city government in San Francisco . . . to defeat the original spirit and purpose of Hetch Hetchy. But it has done all this."

PG&E moved in early and has prevented the full public development of Hetch Hetchy power to this day. Hetch Hetchy's first small hydroelectric generator, Early Intake Powerhouse, went on the line in 1918. It was immediately connected to the Sierra and San Francisco Power Co. (later merged into PG&E). Interior declared the accord illegal on June 8, 1923, but nothing was pressed since only a small amount of power was involved.

With the completion of Moccasin Powerhouse in 1925, a substantial block of hydroelectric power became available; to bring the energy to San Francisco as required by the Raker Act, the city began laying a steel tower transmission circuit in the direction of San Francisco.

It was strung all the way to Newark, some 99 miles, but was stopped abruptly at Newark on the east shore of San Francisco Bay. Here, conveniently, PG&E had a substation and here, conve-

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SF's public power mandate

Raker Act of 1912

San Francisco "is prohibited from ever selling or letting to any corporation... the right to sell or sublet the water or the electric energy sold or given to it...by San Francisco: Provided, That the rights hereby granted shall not be sold, assigned, or transferred to any private person, corporation, or association, and in case of any attempt to so sell, assign, transfer, convey, this right shall revert to the Government of the United States." (Section 6, *Raker Act*, December 19, 1913)

San Francisco City Charter of 1932

The newly adopted city charter states, "It is the declared purpose of the city and county, when public interest and necessity demand, that public utilities shall be gradually acquired and ultimately owned by the city and county."

U.S. Supreme Court decision of 1940:

Section 6 requires the "sale and distribution of Hetch Hetchy power exclusively by San Francisco... directly to consumers in the belief that consumers would thus be afforded power at cheap rates in competition with private power companies, particularly Pacific Gas & Electric Company." (U.S. Supreme Court, in *US v. City and County of San Francisco* (1940))

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niently and in obvious anticipation of a new energy load, PG&E had just laid a trans-Bay, high voltage cable to span the remaining 35 miles to San Francisco.

Although the city had purchased enough copper wire to complete the Hetch Hetchy line, word suddenly rocketed from city hall that further construction funds were exhausted. San Francisco's two power companies, Great Western and PG&E, refused to sell their systems to the city, and the board, instead of using eminent domain to acquire them, approved a contract on July 1, 1925, to hand over Hetch Hetchy power to PG&E at Newark. The copper wire was stored quietly in an SF warehouse and 10 years later sold for scrap.

The big sellout

It was a sellout worthy of chronicling by Lincoln Steffens and Frank Norris. The city produces the power, but PG&E grabs it for wholesale, then wheels it into the city at exorbitant retail rates. As the San Francisco Examiner then observed:

"It is a wrongful and shameful policy for a grant of water and power privilege in the Yosemite National Park Area to be developed at the expenditure of $50 million by the taxpayers of San Francisco, only to have its greatest financial and economic asset, the hydroelectric power, diverted to private corporation hands at the instant of completion; to the great benefit of said private corporation, and at an annual deficit to the city of San Francisco."

In the 1925 city election, every incumbent supervisor was defeated who voted for the 1925 contract and presided over the establishment of PG&E's tollgate at Newark. The people wanted public power and the new board determined the city should bond itself in whatever amount necessary to buy out PG&E and get it.

The first $2 million bond issue in 1925 fell before a powerful PG&E onslaught, but it still got 52,216 for, 50,727 against (two-thirds needed for passage). In all from 1925 to 1941, PG&E's enormous political influence defeated eight bond propositions to buy all or part of PG&E distribution properties.

To defeat the bonds, Havenner told a congressional committee in 1942, PG&E had spent at least $200,000 in the previous ten years; Ickes broke the amount down further: $11,876 in 1935; $25,330 in 1937; $59,755 in 1939 and much, much more in 1941. It now spends hundreds of thousands each year in political and charitable donations.

PG&E's strategy, Ickes testified, was to "spread throughout the city the word that the Raker Act could be easily amended" and to confuse the issue by saying the city "had been discriminated against" by the act.

PG&E laid it on thick in an expensive series of seven ads in the daily press; the press responded by repeating and embellishing the PG&E line. The Chronicle, for example, ran nasty cartoons and editorial comments implying this was all a city hall power grab: "If the city hall were not so busy trying to aggrandize itself by clutching more business to muddle with . . ."

PG&E's voice

(PG&E maintained close connections with most newspaper managements, but Chronicle/PG&E connections have for decades been intimate through family relationships, notably the Tobin and de Young dynasties. Joseph O. Tobin, who became a Chronicle owner by marrying Mike de Young's daughter, Constance, is a nephew of Joseph S. Tobin, a onetime PG&E director. The Tobins live in Hillsborough and have long been associated with the Hibernia Bank. Mike de Young and his brother founded the Chronicle.)

His patience exhausted, Ickes meanwhile filed suit in federal court to throw out the PG&E's phony 1927 contract. The case ultimately went to the U.S. Supreme Court which ruled, on April 22, 1940, that San Francisco had been illegally disposing Hetch Hetchy power to PG&E for the past 15 years.

More: that the act required a "publicly owned and operated power system" in San Francisco.

It is difficult, almost impossible I found, to determine how long this illegal sale continued, how much city users were overcharged and what is the city's current legal status. It appears to me, after months of research, that the city is still under a federal court injunction.

A significant sidelight is then-Rep. Clair Engle's investigation in 1955 into another diversion of Hetch Hetchy power to PG&E. Engle's biting cross-examination of public officials and his ability to disentangle complicated issues proved conclusively that San Francisco was allowing irrigation districts to serve as a conduit to transfer Hetch Hetchy power to PG&E.

Engle quoted figures compiled by the Federal Power Commission showing that 24.7% of the power purchased by Modesto and Turlock "is currently and for a period from 1945 to 1953" was sold to PG&E. Forty-eight percent of this total was Hetch Hetchy power, the FPC said.

Engle asked the American Law Division of the Library of Congress to research this point. It advised him on May 22, 1956, that SF had sold dump power to PG&E since 1945 and by letter agreement had extended the arrangement into 1962. It also said that SF had been selling power to Modesto and Turlock, which at the same time were furnishing PG&E about the same amount they were buying from the city. M and T have plenty of power through their own generating plants at Don Pedro and La Grange.

To determine if this unlawful transfer of power continues, the following data is required: (1) hourly production by district generating plants; (2) simultaneous receipt by the districts from Hetch Hetchy; (3) simultaneous delivery from the districts to PG&E. The Interior Department has refused my repeated requests for this public information.

We are left with a significant remark in the Modesto District's 1967–68 annual report: "These once bitter enemies, the irrigation districts and San Francisco, work in close harmony toward the full economic development of the water and power resources of the Tuolumne River watershed."

As a result of PG&E's influence, Hetch Hetchy's formidable power output is dribbled away in a fragmented pattern that brings relatively little revenue to the city. Besides the irrigation districts, power is sold to several low-paying San Francisco industrial consumers, which are served by PG&E lines from Newark and Warnerville substations. The city pays for transmission charges, including losses.

City power is wheeled into San Francisco on PG&E toll lines and the company until recently levied an outrageous toll. (PG&E buys Hetch Hetchy power at Newark for $2 million, then resells it to SF consumers for $9 million, congressional testimony showed in 1941. Total overcharge: $6,600,000. Multiply these totals year by year and you begin to get the dimensions of this steal from the city treasury.)

Hetch Hetchy power goes to the airport, Muni and street lights. Everything else, notably the lucrative, tightly packed retail market that forms the base of PG&E's empire, is served by PG&E.

Since Interior Secretary Harold Ickes two decades ago, the Interior Department has been notoriously lax in pushing San Francisco to enforce the Raker Act. James Carr stepped out of this don't-ruffle-PG&E atmosphere in Interior to become San Francisco's general utilities manager. He has kept PG&E's monopoly intact, untroubled and unquestioned in San Francisco.

I asked Carr, shortly after he took office in 1964, when the city would enforce the Raker Act. Carr replied in a letter, 51 years after the Raker passed as the Magna Carta of public power, that it was "premature to discuss municipal distribution of power in San Francisco." In March, 1969, it still is. ■

Why are your PG&E electric bills so high?

BY TIM REDMOND

An average San Francisco resident who uses 500 kilowatt hours of electricity a month paid PG&E $41.38 for the month of January 1982. A resident of Palo Alto paid only $10.67 for the same 500 kwh.

Why?

Palo Alto residents own their own utility, and keep the millions of dollars that would otherwise become corporate profits. And most of the energy Palo Alto buys is generated by safe, efficient and cheap hydroelectric facilities owned by the federal government—power-producing river dams similar to the Hetch Hetchy dam owned by the city of San Francisco since 1913.

The electricity generated by San Francisco's Hetch Hetchy dam on the Tuolumne River, however, isn't used to lower electric bills for its owners—San Francisco taxpayers—nor does it raise revenue for the city—revenue that could mean lower property taxes.

Instead, it's effectively sold to PG&E—which in turn sells it back to the city, making a sweet profit — and to out-of-San Francisco chemical companies and municipal utility districts in Turlock and Modesto, which sell it to their own citizens at rates less than half as high as PG&E's.

Higher rates for San Francisco

A Guardian survey reveals that electric rates in 11 Northern California cities with municipal utilities are virtually all lower than rates in San Francisco—a city which, unlike the rest of the others, already owns its own electrical generating system, but doesn't use it to benefit its residents. (See chart)

PG&E claims in a flyer against Prop. K its electric rates "compare favorably with those of other utilities." "No utility in this country, whether privately or publicly owned, is immune from inflation and today's higher costs in providing electric service," the flyer says.

This last statement is patently false. There are at least four municipalities in Northern California whose electric rates have increased far slower than the rate of inflation. One of them—the city of Palo Alto's municipal electric system—actually charges less in 1982 for 500 kwh of electricity than it did in 1972.

In Sacramento, electric rates increased 35%—from $11.59 to $15.70—between January 1972 and January 1982.

PG&E rates in San Francisco, meanwhile, have jumped nearly 300%, from $10.40 in 1972 to $41.38 early in 1982.

PG&E also claims "customers of 11 of the 21 municipally-owned electric systems in California, including Los Angeles, pay a higher rate than PG&E charges the average residential customer in San Francisco." There is some truth to this statement, which was based on rates as of summer of 1982, because the extreme level of precipitation last winter resulted in an extraordinary cheap hydroelectric power bonus for PG&E. However, the statement is not correct for

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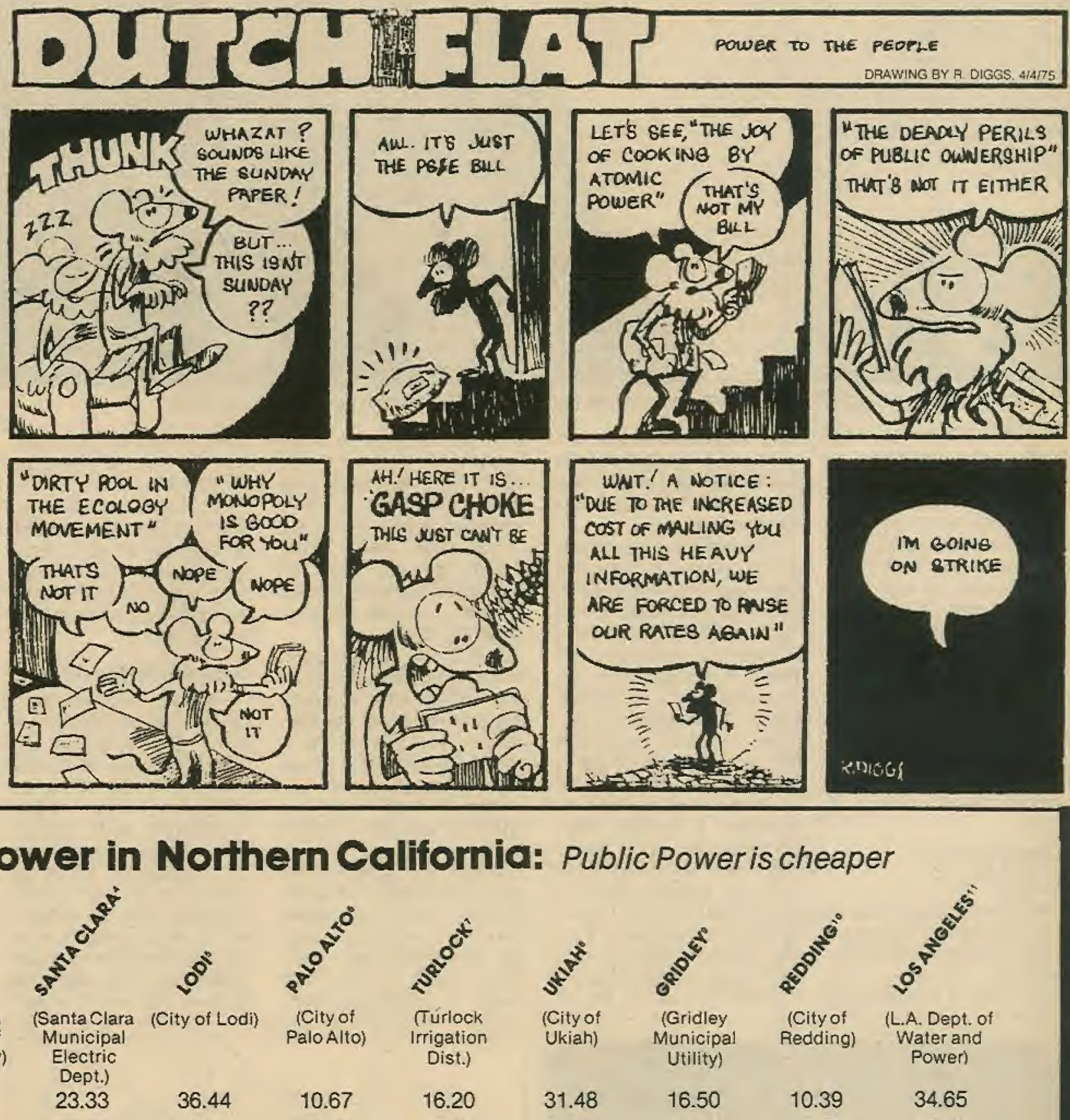

PG&E vs. Public Power in Northern California: *Public Power is cheaper*

	SAN FRANCISCO[1] (PG&E)	SACRAMENTO[2] (Sacramento Municipal Utilities District)	ALAMEDA[3] (Alameda Bureau of Electricity)	SANTA CLARA[4] (Santa Clara Municipal Electric Dept.)	LODI[5] (City of Lodi)	PALO ALTO[6] (City of Palo Alto)	TURLOCK[7] (Turlock Irrigation Dist.)	UKIAH[8] (City of Ukiah)	GRIDLEY[9] (Gridley Municipal Utility)	REDDING[10] (City of Redding)	LOS ANGELES[11] (L.A. Dept. of Water and Power)
1982	**$41.38**	15.70	39.69	23.33	36.44	10.67	16.20	31.48	16.50	10.39	34.65
1981	**25.89**	14.00	30.13	14.79	24.60	9.95	14.20	26.35	16.50	10.39	32.60
1980	**19.79**	13.25	20.13	14.66	20.75	9.39	14.20	18.77	16.50	10.39	29.80
1979	**18.99**	13.25	18.84	13.14	17.11	9.19	14.20	N.A.	26.78	10.39	25.45
1978	**13.36**	12.38	12.50	15.61	22.44	8.19	14.20	N.A.	26.78	9.75	24.10
1977	**13.36**	12.38	12.50	13.73	19.70	7.99	13.42	N.A.	26.78	8.15	20.75
1976	**10.51**	9.21	12.50	11.42	17.11	8.68	11.63	N.A.	26.78	7.51	19.30
1975	**10.51**	9.21	12.29	11.71	14.22	12.08	11.54	N.A.	26.78	6.57	17.40
1974	**10.51**	12.59	11.81	8.58	12.74	10.80	10.06	N.A.	26.78	6.57	15.10
1973	**10.40**	12.59	10.55	8.38	12.76	10.80	N.A.	N.A.	N.A.	6.57	12.45
1972	**10.40**	11.59	9.20	8.38	12.76	10.80	N.A.	N.A.	N.A.	6.57	10.60

All rates are for 500 kilowatt hours of domestic electric service during the month of January.

1. PG&E's San Francisco rates were collated from tarriff sheets on file with the California Public Utilities Commission, 350 McAllister, SF.

2. Sacramento Municipal Utility District generates almost all of its own power — nearly 40% of it through hydro projects. The balance is purchased from the federal government's Western Area Power Administration (WAPA). Source: SMUD.

3. The Alameda Bureau of Electricity buys almost all its power wholesale from PG&E, and sells it to its customers. Source: Alameda Bureau of Electricity.

4. Santa Clara Municipal Electric Dept. purchases power from both PG&E and WAPA. Source: Santa Clara Municipal Electric Dept.

5. Lodi buys most of its power from PG&E and the balance from WAPA. Like Alameda, Lodi sells the power to its customers at a rate that allows some profit to be pumped back into city coffers — resulting in lower property taxes. Source: City of Lodi.

6. Palo Alto buys nearly all its power from WAPA. Source: City of Palo Alto.

7. Turlock Irrigation District generates about 55% of its own energy, and purchases the rest from San Francisco's Hetch Hetchy project. Source: Turlock Irrigation Dist.

8. Ukiah buys most of its power from PG&E. Source: City of Ukiah.

9. Gridley purchases most of its power from WAPA. Source: Gridley Municipal Utility.

10. Redding buys nearly all its power from WAPA. Source: City of Redding.

11. Los Angeles Department of Water and Power generates most of its own energy. The rates shown from 1972-1981 are based on average charges provided by the department. Source: L.A. Dept. of Water and Power.

This chart compares PG&E's electric rates in San Francisco with rates in nine public power cities in Northern California, plus Los Angeles. It demonstrates that San Francisco residents pay more for PG&E's private power than do residents in cities with public utilities. For further explanation, see the accompanying article.

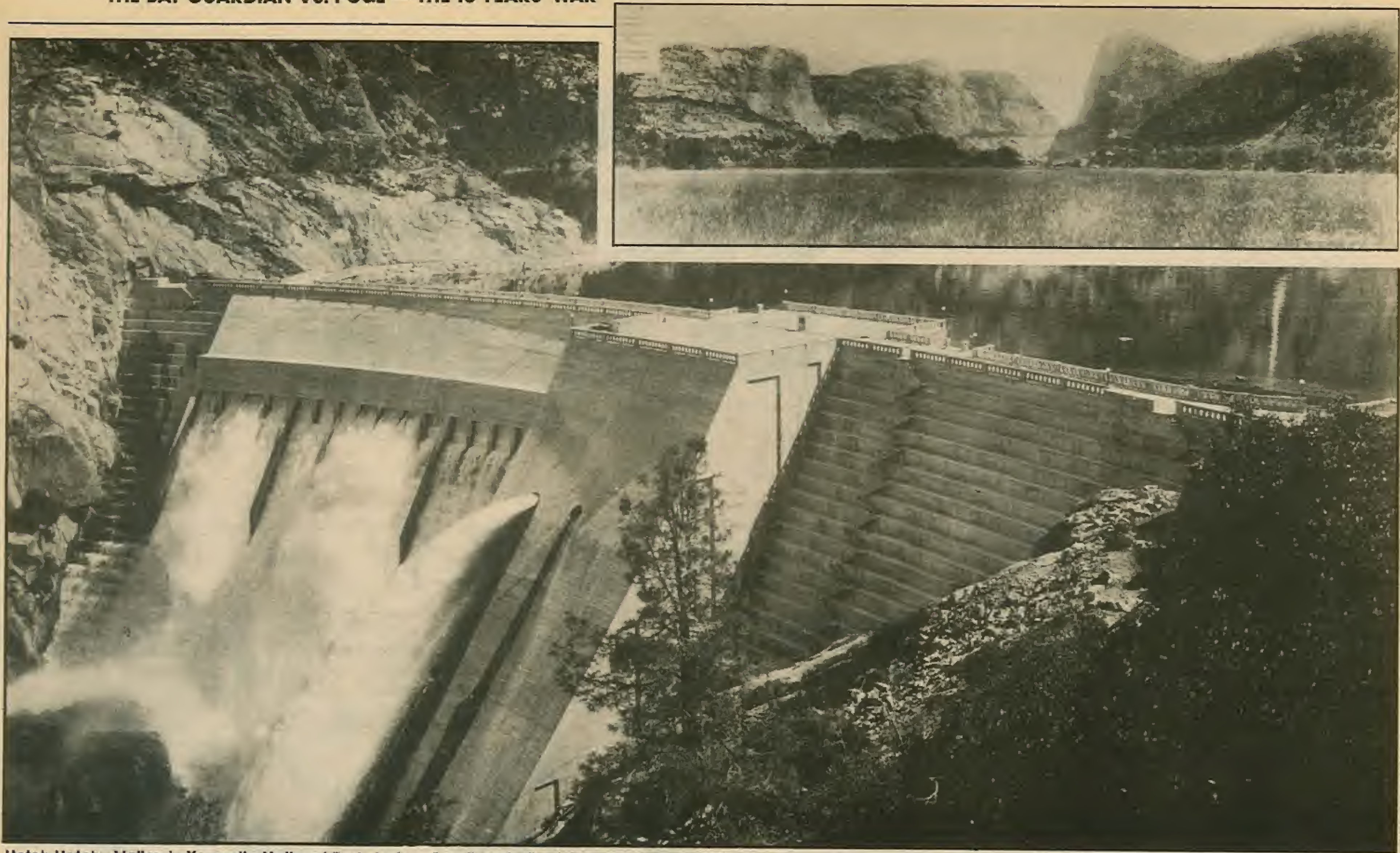

PHOTO COURTESY OF SAN FRANCISCO PUBLIC UTILITIES COMMISSION

Hetch Hetchy Valley in Yosemite National Park, before (inset) and after (above) the city built its dam.

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January, 1982, the date we have used for comparison of electric rates. Indeed, all 11 cities in Northern California that have public power had rates lower than PG&E's in January 1982. In any event, of the 11 cities PG&E cites, nine are situated in Southern California, where inexpensive hydroelectric power is far less available than in the rest of the state. For example, four of these cities—Los Angeles, Glendale, Burbank and Pasadena—rely on fossil fuels for about 72% of their power.

Cheap public hydropower

We also found that utilities that purchase government-owned hydroelectric power have rates drastically lower than PG&E's. Residents of Palo Alto, Santa Clara, Sacramento, Turlock, Modesto and Gridley all pay less than half for their electricity than San Franciscans do.

Those cities have contracts to buy power they can't generate themselves (only Sacramento has its own generating facilities) from the federal government's Western Area Power Association. The association isn't, as PG&E claims, "government-subsidized"—it hasn't lost money in years, Dave Magaw, WAPA's associate regional marketing manager, told the Guardian. It does, however, sell electricity at a "break-even" rate—about a tenth of a cent per kilowatt hour. It costs PG&E between five and six cents to generate a kilowatt hour of electricity in a fossil-fuel or nuclear plant.

WAPA's power, PG&E correctly points out, is all allocated by contracts that don't begin to expire until 1994. So San Francisco can't immediately take advantage of this power source. What PG&E doesn't say, of course, is that the city already owns its own hydro plant—Hetch Hetchy.

PG&E also fails to point out that cities possessing their own utilities have a choice: they can either sell the electricity—like WAPA—at a non-profit level, or they can sell it at enough "profit" to underwrite some other city expenses, and keep property taxes down.

PG&E is a private company responsible to its stockholders—many of whom have little or no connection to San Francisco (see "Who Owns PG&E," p. 14). As a result, it is obligated to sell its power at rates as high as permitted to make as much profit as possible.

The system by which our electric rates are determined, the methods PG&E uses to generate power and the company's questionable fiscal management all contribute to our soaring bills.

Guaranteed profits

Since the company has a guaranteed monopoly on power distribution in San Francisco (as well as the rest of its distribution area), the California Public Utilities Commission must approve the company's rate structure. The commission, which has gone out of its way to be receptive to what the industry feels it needs, attempts to set rates that are fair to the consumers, and also allow the utility a "fair rate of return" on its investments.

PG&E's "investments" include anything it buys, from hard hats to trucks to office machines to nuclear power plants. PG&E adds up the original cost of everything it has purchased and comes up with a figure known as the "rate base." The PUC also calculates the "rate base," and if the two don't jibe, the commission adjusts PG&E's estimate.

The PUC, in conjunction with PG&E, then determines a "fair rate of return," based on the nation's economy, interest rates and related factors. Last January this was set at 12.2%. The rate of return is multiplied by the rate base and added to operating costs—salaries, basic fuel costs, taxes and the like. The resulting figure determines what PG&E is allowed to clear across its system as operating revenues. Fuel costs that exceed what the company expects to pay are added to the rates later as "fuel cost adjustments."

PG&E customers pay not only the "return" on PG&E's investments, but, over time, the original cost of the investment as well. The Diablo Canyon nuclear power plant, for example, will be "depreciated" over 30 years—each year the plant operates, the customers pay 1/30th of the original cost, along with the "return." In Diablo's case, depreciation amounts to about $82 million a year.

After the PUC has decided how much money PG&E is allowed to clear, the actual rates are set—designed by the commission and PG&E to meet the state's standards for residential, commercial and

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industrial charges, to reflect the general cost of providing each type of service and to generate, across the system, the agreed-upon revenue for PG&E.

This means PG&E is essentially guaranteed a profit every year on operations—unless it badly mismanages its resources. If fuel costs go up, the company simply increases its rates to compensate through the "fuel adjustment charge," which allows PG&E to automatically pass on any increases in fuel costs to its customers.

It also means PG&E has no incentive to lower costs—in fact, the utility has an incentive to raise the size of the rate base, since any additions to the rate base earn a 12.2% return—guaranteed. Diablo Canyon will increase the rate base by about $2.5 billion, and generate about $300 million in annual revenues, no matter how much electricity it produces. (Rates, remember, aren't based on how much electricity is delivered, but rather on the size of the rate base.) The Helms Pumped Storage Project, a massive hydroelectric plant the company is building in the Sierras, will raise the company revenues by about $730 million when it gets added to the rate base in 1983.

Technically, the PUC must approve all additions to the rate base, and no project may be added until it is "on line"—actually providing service to the customers. Historically, however, this hasn't been much of a problem. "Certificates of Public Convenience and Necessity," required for a project to go into the rate base, have been issued more or less routinely over the years. Diablo Canyon and the Helms Project are the first two sizable projects that may not get final approval without lengthy negotiations and discussion.

PG&E's pitiful management record

PG&E is fond of comparing municipal utilities to problem-ridden government operations, such as the U.S. Postal Service or San Francisco's MUNI. In fact, it would be difficult to imagine a more blatant example of financial mismanagement than PG&E's two major construction projects of the last decade—Diablo Canyon and Helms. Diablo, the twin nuke PG&E has been building in San Luis Obispo since the late 1960s, has become the nation's most hotly-contested nuclear power plant because of safety questions and cost overruns. The plant cost originally projected to cost about $350 million; PG&E now admits it will have poured more than $2.5 billion into the plant by the time Unit One becomes operable. And critics say costs may be even higher than that.

The Helms Project is designed to provide hydroelectric power at times when demand is high, and to "store" energy when demand is low, as in the evening and late night hours. The project involved blasting hundreds of tons of granite out of a hillside in Fresno County to construct a huge tunnel between two lakes—one about 2,000 feet higher than the other.

When demand is high, water will drop through the tunnels, turning three turbines below. When demand is low, the turbines will be "reversed," pumping the water back up to the upper lake.

Since only about 75% of the energy used to pump the water up can be recovered when it falls back down, the plant doesn't really generate energy at all; it just stores it for later. However, the added ability to regulate electric "loads" will, PG&E says, allow it to keep from building more power plants to meet peak demand, and thus save money for ratepayers.

The project, however, has *continued page 13*

PG&E yanks $44 million in profit out of San Francisco in 1981

BY TIM REDMOND

In 1971 Guardian Utilities Editor Peter Petrakis calculated that the city of San Francisco's annual profit loss to PG&E exceeded $35 million a year — in other words, PG&E took $35 million each year from the residents of San Francisco, and deposited it in the wallets of its stockholders.

Petrakis' first attempt to arrive at this figure involved "scaling up" the profits of public power cities such as Palo Alto — increasing them in proportion to the size difference between the cities. The California Public Utilities Commission rejected that idea as inaccurate.

Searching further, Petrakis found that PG&E does not reveal to the public the profit it makes in any individual city. By law, it must list gross revenues for each city it services, but not expenses.

So he came up with an estimate of PG&E's San Francisco expenses through multiplying the number of kilowatt hours sold in the city by the utility's average cost — system-wide — of producing one kilowatt hour of power. He then estimated the administrative, distribution and sales expenses for the city by taking the fraction of PG&E's total costs in those departments that could realistically be attributed to San Francisco. Since San Francisco in 1971 comprised 12% of PG&E's customers, and since customer-related expenses in the city are about half what they are system-wide because San Francisco is so densely populated, Petrakis took 6% of PG&E's total expenditures in each of these categories.

The $35 million estimate was about the same as the one arrived at by "scaling up" Palo Alto's profits.

These days, that process is a little tougher. PG&E's "resource mix" — the mixture of electrical generating methods the utility uses — varies tremendously from month-to-month, as hydro power becomes more or less available, and as the company shifts its fossil fuel usage back and forth between oil and natural gas, depending on price and availability. So it is difficult to come up with an average figure for unit production cost.

But a reasonable estimate can be obtained by averaging out total electric production and expenses over the year 1981, based on figures in PG&E's annual report to the PUC. As expected, it's much higher than it was in 1971.

PG&E sold 61.75 billion kilowatt hours of electricity in 1981 throughout its service territory. Total electric generation expenses for 1981 were $2.578 billion — about 4.17 cents a kilowatt hour.

That means PG&E's generating expenses for San Francisco were about $151 million. PG&E sold 3.63 billion kwh in the city in 1981.

Total distribution, sales and customer service expenses amounted to $494 million. In 1981 about 11% of PG&E's customers were in the city; since Petrakis calculated that PG&E's San Francisco expenses are about half the expenses system-wide, the city represents about 5.5% of the $494 million, or $27 million.

So PG&E's total San Francisco expenses in 1981 were about $178 million. Deducting that cost from the $222 million PG&E reported as total San Francisco revenues, we arrived at an approximate San Francisco profit for PG&E of $44 million in 1981.

If the city owned its own electric system, that money would either disappear from residents' electric bills (an average yearly savings of about $144) or become extra city revenue; enough, say, to subsidize 25¢ MUNI fares for everyone, or to lower property taxes. ■

And now, SF ratepayers may have to pay higher electric bills because of the cost overruns in PG&E's Helms project. State auditors found PG&E had no incentive to keep costs down.

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been so plagued by cost overruns that it spurred a special investigation by the Joint Legislative Audit Committee of the State Assembly. The results of that investigation, released Aug. 25th, recommend the PUC adopt new procedures to regulate utility construction projects, so problems such as those that plagued the Helms project may be avoided in the future. "The auditors found that the CPUC does not have adequate procedures for approving and monitoring power generation projects such as the Helms Pumped Storage Project. . . As a result, utility customers may eventually pay for construction costs that should not have been included in the rate base," the report says.

The audit committee blames the high cost of the project largely on the contract PG&E signed with its main contractor, Granite-Ball-Groves Inc. The contract allows Granite-Ball-Groves a flat fee of $18 million for handling the project. PG&E pays all the bills.

Since PG&E assumes it can eventually pass all the costs onto the ratepayers, the company had no incentive to keep costs down. Neither did Granite-Ball-Groves, which made essentially the same amount no matter what the final costs were. The contract contained a provision for a $2.5 million penalty if the work cost too much but, the auditor said, that point passed long ago; the contractor now has little reason to attempt to cut costs.

Wall St. nervous about PG&E

The audit committee members aren't the only ones concerned about PG&E's financial mismanagement. Wall Street investment analysts are also beginning to sound a note of caution concerning PG&E's financial situation. Both Standard and Poor's and Moody's—two of the best-known securities analysis firms on the stock market—lowered their ratings on PG&E's bonds early in 1982.

In both cases, the high costs involved in building Diablo Canyon—and uncertainty over when it will actually be in good enough shape to operate—were the deciding factors.

Investment analysts have been maintaining a cautious stance on PG&E stock. "Overall, we regard the fundamental situation of Pacific Gas and Electric to be below that of the average electric company," an August 1981 Merrill Lynch report on PG&E stated. "However, the forthcoming completion of [Diablo] and additional rate relief should help bring about substantial improvement in the company's situation."

Investment analysts aren't talking to the press about PG&E these days, however. Judith Warriock, a vice president and financial analyst for Dean Witter in New York told the Guardian through a spokesperson that she "will not be quoted on anything to do with PG&E for a San Francisco newspaper."

Efforts to keep the price of the company's stock value up in the face of major cash outlays for construction have put the company in a potentially tenuous financial position. (See accompanying article on Diablo Canyon.)

The benefits of municipalization

Included in the price PG&E customers pay for electricity is the interest the company must pay on the money it borrows to finance its multi-billion dollar construction program. At least half of the money spent on the Diablo and Helms projects was borrowed, either from banks or by selling corporate bonds, according to PG&E spokesman Dennis Pooler.

Since PG&E is a private company, the bonds it sells are not tax-free; this means the interest the company (read the customers) pays are much higher than they would be if the construction was financed by tax-free municipal bonds.

Of course, even tax-free bonds aren't cheap these days. PG&E estimates that purchase and takeover of its San Francisco system would cost more than $1 billion; even at 12% interest, the debt service on a bond issue could cost San Franciscans $124 million a year for 30 years, the company says.

Not everyone agrees with PG&E's estimates of the value of its own property. It's an adage that you don't take the seller's word for the value of its product. Only an independent feasibility study could show that. There is also disagreement about what the city might decide to buy—the power lines and distribution system by themselves, or in conjunction with PG&E's two thermal generating plants at Hunter's Point and Potrero.

The "irony'" of Prop. K, PG&E says, is that Hetch Hetchy can provide only about 20% of the customer load in San Francisco; "the rest would have to be bought from PG&E."

However, if the city purchased the Potrero and Hunter's Point plants, together with Hetch Hetchy power the three sources could provide far more power than the city now uses—we would be able to sell a good bit back to PG&E. But even if the city relied only on Hetch Hetchy, PG&E's figure is dubious.

According to PG&E's 1981 annual report filed with the PUC, the company sold 3.63 billion kilowatt hours of electricity in San Francisco in 1981. That year Hetch Hetchy facilities generated 2.203 billion kwh—close to 60% of the city's use. Of course, not much of that ever made it to San Francisco; only 557 million kwh were sold to "municipal accounts" (MUNI, the airport, street lighting, etc.). PG&E "wheeled" that power from its Newark substation to the city, which means the Hetch Hetchy power was pooled with PG&E's power at Newark, and an equal amount was returned to the municipal facilities at a rate close to what PG&E normally charges wholesale customers. Essentially, PG&E bought the power in Newark and sold it back—taking about $2 million in profit on the deal.

The Modesto and Turlock Irrigation Districts received a total of about 1.5 billion kwh, for which they paid about 1.4 cents per kilowatt hour. The two districts retailed that power to their citizens—at enviously low rates—and still made about $16 million between them, far more than the $8 million San Francisco made off the entire Hetch Hetchy system in 1981.

The remaining power—about 500 million kwh—was sold to industrial customers outside of the city.

So if San Francisco kept all its own power, it could provide close to 60% of the city's needs.

The Hunter's Point plant produced 1.8 billion kwh in 1981; the Potrero plant about 1.4 billion kwh. Together with Hetch Hetchy, the city would have a generating capacity of about 5.4 billion kwh—1.8 billion more than we need. The rest could be sold.

More false claims by PG&E

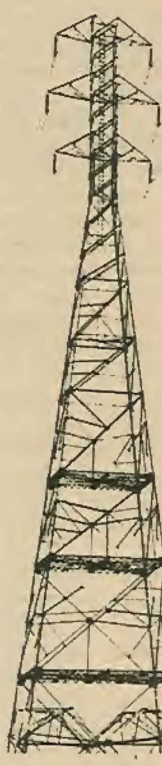
PG&E is fond of making claims about how much municipal ownership would cost the city. The plan would add 1,200 employees to the city payroll; it would "deprive the city of millions of dollars" in lost tax revenue, PG&E says.

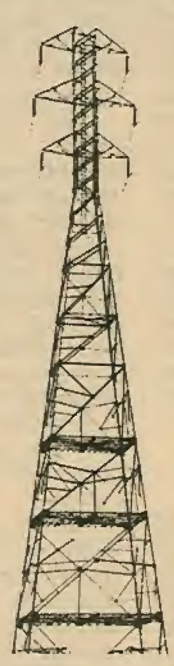
But watch those claims carefully: San Franciscans already pay the salaries of 1,200 PG&E employees. They're included in your electric rates—just like they would be if the city owned its own system. And so are PG&E's taxes, which are in effect already paid by its customers in the form of higher rates.

Just about everyone in the city is concerned about spiralling electric rates. In the final analysis, however, those will not come down unless the city begins to use its own cheap electric power the way it was meant to be used—to benefit the citizens. The Raker Act scandal is 70 years old, but as long as PG&E and its City Hall allies continue to defy the law and up the rates, the scandal will never die. ■

Who owns PG&E:

let's start with the Rothschilds of France and England





B Y E. J. F L Y N N

"PG&E is an example of public ownership in the truest sense."
(From the PG&E flyer, "Who Owns PG&E")

In July of 1982, PG&E issued a flyer purporting to show that the utility's stock is held by a vast cross-section of the population — folks just like you and me — most of whom live right around here.

Shareholders, PG&E proudly proclaims, "are people from all walks of life . . . More than half of the company's 397,010 stockholder accounts are held by individuals living in the company's service territory, or by institutions located there." That's a lot of land, stretching from Eureka to San Luis Obispo. These "local investors," the company goes on to say, own "approximately 84 million shares of PG&E stock," and no individual owns more than one-tenth of one percent of outstanding stock.

From PG&E's account, one might conclude that the company is living proof of economic democracy in action. Yet close examination of the document and its claims about "public ownership," plus a Guardian inquiry into who owns PG&E, reveal that significant power is in fact concentrated in a relatively small number of powerful private corporations, mostly out-of-state. This conclusion undercuts PG&E's "public ownership" claims and illustrates an essential difference between private and public utilities — ultimate ownership and control.

In the first place, PG&E points to a large number of individual local stockholders, but it fails to add that their 84 million shares amount to only 45% of the 185 million shares outstanding. Moreover, the focus on the individual shareholders is irrelevant anyway, since none of them control more than one-tenth of one percent of the stock and their leverage over company policy is negligible.

The true controlling interest in PG&E is held by a group of stockholders listed, innocuously enough, in the company's stockholder profile as "nominees." Credited with a whopping 40.9% of the stock, nominees are large holding companies, made up mostly of banks and investment houses, that serve as umbrella mechanisms for major investors. They benefit their participants by allowing them to buy and sell stock secretly and cloak their identities with harmless and misleading names like Cede, Kray and Ellen, as PG&E lists some of them in its PUC disclosure, (see chart).

PG&E maintains in its flyer that no single individual owns more than one-tenth of one percent of the stock, but significantly makes no such claim for the participants in the nominee accounts.

The point is that, as the accompanying chart clearly shows, corporate investors hold significantly larger chunks of stock, and, consequently, wield significantly greater power over the company.

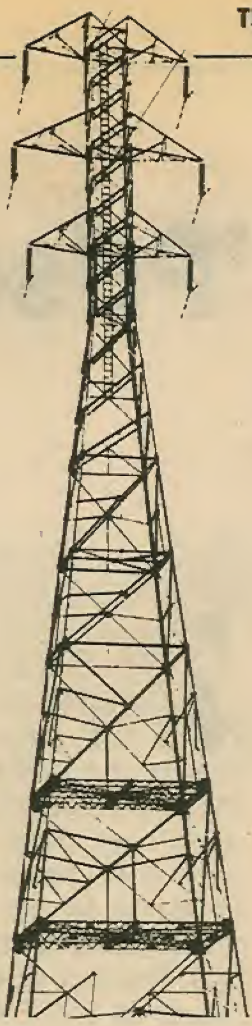
PG&E's largest stockholder by far is the Rothschild Family Group of France and England which, through its Bank of California subsidiary, controls 6.3% of all outstanding shares. BankCal, 31.8% of which is owned by the Rothschilds, has an even more commanding percentage — 13.1% — when common stock alone is taken into account, according to the "Spectrum" research guide.

The Bank of California manages its interest as trustee for some 22,000 PG&E employees who are participants in the utility's Savings Fund Plan. However, according to several knowledgeable sources, the bank still has authority over how the stock is voted. For example, a report issued in 1968 by the U.S. House Sub-Committee on Domestic Finance called attention to "a definite trend toward bank trust departments obtaining discretionary investment authority over a larger and larger proportion of trust department assets."

As William Bennett, member of the State Board of Equalization and long-time PG&E observer, put it to the Guardian, "What are the chances of PG&E's meter readers and other employees getting together, hiring a lawyer, and successfully challenging the trustee? They've got no power at all."

We asked the Bank of California if PG&E employees ever voted any of the stock in their Savings Fund Plan. Spokeswoman Joelle Yuna told the Guardian that "because of our responsibilities as fiduciary, we have to maintain a confidential relationship with our clients. We can't discuss how the stock is voted."

Many experts in the financial world, including former Federal Reserve Board Chairman Arthur Burns and the late Rep. Wright Patman, (D-Texas), have long maintained that 5% controlled by a single entity is a sufficient holding to guarantee considerable leverage over a company's policies. BankCal's



holdings of 6.3%—more than 10 million shares—therefore constitute a powerful power base many hundreds of times greater than the holdings of PG&E's "people from all walks of life."

The control of such a large block of outstanding shares is reflected on PG&E's board of directors. Bank of California — with its 6.3% holding — has two directors on PG&E's board: Charles de Bretteville, former BankCal chairman of the board, and Alfred Eames Jr., BankCal director.

Second to the Bank of California in PG&E holdings — with a percentage only one-tenth as big, though still far larger than PG&E's "individual investors"—is the College Retirement Equities Fund with .67%. Rounding out the top five investors are First National Boston Corp. (.62%), Kirby Family Group of N.Y. (.54%), and Wells Fargo (.52%). As befits its rank on the investor line-up, Wells Fargo has two directors on PG&E's board, as does Crocker National (#12).

The Guardian's investigation into PG&E's major stockholders provides a telling contrast to the company's boast that most of its investors are little people from its Northern California service territory. Of the ten biggest stockholders, one — the Rothschild Family Group — is headquartered outside of the country, and six others are from out-of-state: First National Boston Corp., Kirby Family Group of N.Y., Prudential Insurance Co., J.P. Morgan & Co., Republic of Texas Corp. and Connecticut General Insurance Corp.

To make the point even plainer, 152 large corporations, as of June 30, 1982, controlled 38.26 million shares of PG&E common stock valued at $908 million — or a whopping 29.5% of PG&E's outstanding stock, according to "Spectrum." Most of these companies are large out-of-state-banks, insurance companies and financial concerns. Only a handful or so are in PG&E's service area.

Look through the accompanying charts and the "Spectrum" list of 152 companies and judge for yourself. Do these look like just plain folks, "people from all walks of life" in San Francisco or anywhere else in Northern California?

Well, look at it this way. The Bank of California PR people say that the Baron de Rothschild, head of the Rothschild Family Group, will be in San Francisco at year's end for BankCal's annual stockholders meeting. If he's just "plain folks" like you and me, maybe you could ask him to drop by for a glass of Stonegate Chardonnay and a chat about PG&E.

In any event, we hope you have better luck in reaching the Baron than we did here at the Guardian. Alan Kay, our managing editor, was planning to be in Paris during September and so he tried, through the Bank of California in San Francisco, and again through the Rothschild interests in Paris, to locate the Baron and line up an interview with him to get his views on the Bank of California, PG&E, the Raker Act and Prop. K.

No word from Alan Kay or the Baron by presstime at 6 p.m. on Tuesday, Oct. 5, 1982. ■

P.S. 1: Invaluable data on PG&E's top stockholders was supplied to the Guardian by two research firms: Corporate Data Exchange and Computer Directions Advisors, Inc. CDE is a nonprofit organization that specializes in producing corporate profiles for congressional committees, labor unions, the press, and anyone else interested. Its address: Room 707, 198 Broadway, New York, NY 10038. Computer Directions publishes "Spectrum," a quarterly survey of the principal holders of common stock in major corporations. Its address: 11501 Georgia Avenue, Silver Spring, MD 20902. "Spectrum" is available locally in the Stanford Library.

P.S. 2: The list from "Spectrum" of the top 152 holders that control 29.5% of PG&E stock. See many locals?

Aetna Life & Casualty; Allegheny Corp.; American Fletcher National Bank; American General Corp.; American Nat'l B&T, Chicago; American Security Bank; AT&T; Ameritrust; Andre-Com Corp.; Atlanta Capital; BEA Associates; David L. Babson & Co.; BankAmerica; Bank of California; Bank of Delaware; Bank of New York; Bank of Tokyo; Bankers Trust; Barrow Hanley; Batterymarch; Baybanks, Inc.; Bernhard & Co.; Bernstein & Co.; Boatmen's Bankshares; Boston Co.; Brown Brothers Harriman; CG Investment; CMB Investment; Calif. Public Employees; Centerre Bank; Centran Corp.; Chase Manhattan; Chemical New York; Citicorp; Citizens Fidelity; Citizens and Southern Ga.; Citytrust; College Retirement.

Colonial Management; Colorado National Bank; Combined Insurance Co.; Connecticut Bank; Continental Corp.; Continental Illinois; Crocker National; Crum & Forster; Deere & Co.; Dean Witter; DetroitBank; Dodge & Cox; Dreyfus Management; Eaton & Howard Vance; Endowment Mgmt.; Equitable Life; Exxon; FMR Corp.; Fiduciary Trust of New York; Fifth Third Bank; Financial General; First Alabama; First American; First Atlanta; First Bank; First Chicago; First Interstate; First Kentucky; First Maryland; First National Bank of Akron; First National Boston; First Pennsylvania; First Trust of St. Paul; Flagship; Girard Bank.

John Hancock Mutual; Harris Trust; HongKong Banking; Horizon Bancorp.; E.F. Hutton; Imperial Chemical; Indiana National Bank; Interfirst Corp.; Investment Advisors; Irving Bank; Jefferson Pilot; Landmark Union Trust; Liberty National; Lieber & Co.; Lincoln First; Lincoln National; Lloyds Bank of California; Loomis Sayles; Lord Abbett; A.P. Loring; Manufacturers Hanover; Manufacturers National; Marine Trust; Maryland State Retirement; McCullough & Andrews; McMorgan & Co.; Mercantile Bankshares; Mercantile Bank.

Merrill Lynch; Metropolitan Life; Miami Corp.; Michigan National Bank; Miller Anderson; J. P. Morgan; Morgan Stanley; Mutual Life; National City Bank; Northern Trust; Northwest National Bank; Northwestern Mutual Life; Northwestern Union Trust; Oppenheimer & Co.; People's National Bank; Pittsburgh National Bank; Prudential Insurance; RNC; Rainier Bancorp.; RepublicBank; Rhode Island Hospital; Riggs National Bank; Russell Frank Co.; Schroder Capital; Scudder Stevens; Sears Bank; Security Pacific; Shawmut Corp.; Shields Asset; Smith Barney.

Southeast Banking; Sperry Capital; State National of Illinois; State Street Boston Corp.; Sun Banks of Florida; Swiss Reinsurance; Third National of Hampden; Title Insurance; Travelers Corp.; Union Bank of California; Union Trust; Union Trust of Connecticut; U.S. Bancorp.; United States Trust; University of California; Valley National of Arizona; Virginia National Bank; Wachovia; Wall Patterson; Weiss Peck & Greer; Wells Fargo.

WHO OWNS PG&E:
A lot of big out-of-state stockholders

A. PG&E's top 10 stockholders
(as reported by PG&E to the PUC, December 1981)

1.	Cede & Co., NY[1]	21.7%
2.	Safund & Co., SF	7.7%
3.	Pacific & Co., SF	2.9%
4.	PG&E (agent for dividend reinvestment plan, SF)	2.5%
5.	Kray & Co., Chi.	1.4%
6.	Ellen & Co., SF	.86%
7.	Credit Suisse	.49%
8.	Societe de Banque Suisse	.40%
9.	Merrill Lynch, NY	.32%
10.	NY Life	.27%

B. PG&E's top 14 stockholders
(as reported by Corporate Data Exchange in New York City)

1.	Rothschild Family Group of France and England, Bank of California[2]	6.3%[3]
2.	TIAA-CREF[4]	.67%
3.	First National Boston Corp.	.62%
4.	Kirby Family Group, Allegheny Corp., NY	.54%
5.	Wells Fargo, SF	.52%
6.	Prudential Insurance Co., Newark, N.J.	.42%
7.	Univ. of California	.38%
8.	J.P. Morgan & Co., Inc., NY	.37%
9.	Republic of Texas Corp.	.32%
10.	Connecticut General Insurance Corp.	.29%
11.	Calif. Public Employees & Teachers Retirement Sys.	.28%
12.	Crocker National Corp.	.27%
13.	Manufacturers Hanover Corp.	.25%
14.	Security Pacific Corp.	.22%

1. PG&E's list includes the names of nominee accounts, which disguise the identities of real stockholders. Compare PG&E's "mystery" list with the CDE list.

2. Trustee of PG&E Savings Fund Plan for employees, controlled by the Bank of California/Rothschild interests. See CDE chart and story.

3. "Spectrum" research guide reports the Bank of California/Rothschild holdings of common stock alone at 13.1%, or 17,033,800 shares valued at $404,553,000 as of June 30, 1982.

4. College Retirement Equities Fund/Teachers Ins. and Annuity Assn.

The power of the PG&E power trust

How PG&E keeps its influence over the politics, business and media of San Francisco

BY E. J. FLYNN AND BRUCE B. BRUGMANN

PG&E exercises enormous power and leverage over local San Francisco politics and business, as the Guardian has demonstrated in many stories throughout the years.

The most obvious example of PG&E's awesome display of power is how the company has managed to stifle for decades virtually all major political, business and media opposition to the PG&E/City Hall/Raker Act scandal, even though one would suppose that hard-headed businessmen in these quarters would see the merits of cashing in on our Hetch Hetchy investment and getting the cheaper rates and lower taxes and general fund subsidies that would come from bringing our own Hetch Hetchy power to our own people. To put things even more simply, it would be much cheaper to do business and to live in San Francisco if the city had cheap public power and wasn't forced to buy PG&E's ever more expensive private power. Here are but a few of the ways PG&E exercises political clout in San Francisco:

PG&E interlocks with the big banks: Of the 20 directors listed in PG&E's 1981 annual report, six are directors or former directors of three powerful local banks with major PG&E stockholdings. Bank of California: Charles de Bretteville (former COB) and Alfred W. Eames Jr. (director). Wells Fargo: Richard P. Cooley (board chairman) and Wilson Riles (director). Crocker: John B. M. Place (board chairman) and Emmett G. Solomon (former board chairman). Bank of America, Security Pacific and others have major holdings.

This bank/utility alliance is as old as the electric power business in the U.S. and congressional investigations during the 1930s conclusively demonstrated its existence and political power. In the 1920s in California, this alliance blocked the state from passing the

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Water and Power Act, an initiative measure that would have had the state develop water and power under an authority that would have supplied bulk power to municipalities and would have provided low-interest loans to municipalities to acquire distribution facilities.

The Guardian ran smack into an example of this PG&E/BofA alliance in 1971 when Marvin E. Cardoza and Louis A. Petri, a B of A vice-president and board member respectively, led the fight on the PUC to kill the PUC's own cost-and-feasibility study on buying out PG&E, which the PUC had adopted at the Guardian's prodding.

Then there's the illuminating case of M. Brock Weir, the president of the Bank of California, which then and now is PG&E's largest stockholder. Weir was brought to Cleveland in 1973 from his BankCal post to become chief executive officer of the Cleveland Trust Company. He orchestrated the unsuccessful bank/private utility campaign of 1978–79 to take over the publicly owned Cleveland Municipal Light. He was the man who held the gun to then Mayor Dennis Kucinich's head and said the banks would bail out the city only if the mayor did as he was told and allowed Muny Light to be stolen quietly by Cleveland Electric Illuminating Co, according to news accounts. (Weir's bank held most of the city's short-term notes).

In other words, Brock Weir of PG&E/Bank of California tried to pull off for the bank/utility alliance in Cleveland what they had done so successfully here in keeping Hetch Hetchy power out of San Francisco for decades. Weir and the bank/utility alliance were not as successful in Cleveland as they'd been in San Francisco. They were beaten by a 2-1 margin in a 1979 election. (See "The lessons of Cleveland," 3/22/79.)

PG&E interlocks with San Francisco's four most influential business organizations: SF Chamber of Commerce (PG&E president Barton W. Schackelford is the chamber's vice-president for economic development.) Downtown Association (SF Division Manager J.A. Fairchild sits on the association board). Bay Area Council (Chairman Frederick W. Mielke, Jr., is a director). San Francisco Planning and Urban Renewal Association (SPUR) (John Koehn, vice-president for governmental relations, is a board member). Ever hear anybody from any of these groups publicly dropping a good word for enforcing the Raker Act?

PG&E interlocks with many of the city's most powerful corporations. Homestake Mining Company (Board Chairman Harry M. Conger is a PG&E director). Fireman's Fund (Board Chairman Myron De Bain is a PG&E director). Del Monte (former Board chairman Alfred W. Eames Jr. is a PG&E and a Bank/Cal director). Safeway (Board Chairman Peter A. Magowan is a PG&E director). Potlatch (Board Chairman Richard B. Madden is a PG&E director). Potlatch and PG&E have another financial interest in common: they both quietly contributed large sums of money to Sup. Robert Mendelsohn which Mendelsohn didn't properly report on his campaign disclosure statements and which ultimately brought political corruption charges against him by the California Fair Political Practices Commission. (See PG&E chronology, 1971-73-77-78.)

PG&E scares hell out of local politicians from mayors on up and down. State Sen. Milton Marks debated the Raker Act scandal in high school, but to this day ducks the issue in public pronouncements. Rep. Phil Burton, a member of the House Committee that supervises Interior, who in 1979 gave the feasibility issue a strong endorsement, is ducking the issue this time around. So is Assembly Speaker Willie Brown, who endorsed strongly in 1979. So is Sup. Richard Hongisto, who once was for enforcing the Raker Act. So are Bill Maher and Ben Tom, both of whom ought to know better in running as progressive candidates.

One phone call—PG&E's Fred Mielke Jr. to Mayor Feinstein—and she is doing without blushing a pro-PG&E ballot argument and heading up as honorary co-chair, with Sup. Quentin Kopp, PG&E's front committee. Kopp? The big rough-and-tumble fiscal conservative? Yup. He's out there with a pro-PG&E ballot argument, along with Sup. John Molinari, and their points read as if they're cranked out on the PG&E mimeograph.

Then there's PUC czar Dick Sklar, who floats out he's a bit of a socialist (or at least a DSA member), and he's reversed his position from 1979. Then there's Big Labor on the PG&E list (SF Labor Council and COPE, Stan Smith's Building and Trades Council, an ILWU group). Have they already forgotten the Tom Mooney case and PG&E's direct involvement in framing him? (See Curt Gentry's book *Frameup* for details.)

PG&E's Joe Kelly, Gov. Jerry Brown's brother-in-law, marched right into City Hall and recruited the troops and wired the ballot to kill Prop. K at the outset—and not a peep of protest from anybody, in fact help and coverup from Feinstein, the city attorney, city controller, Superior Court Judge Stuart Pollak. Neat.

PG&E supports the Ex/Chron and vice versa: Monopoly supports monopoly in San Francisco. Still a blackout on the PG&E/Raker Act scandal. ■

'Prison bells

BY MICHAEL E. MILLER

It was back in the foggy days of 1972 or 1973, when Joe Alioto was mayor and the cable cars ran once in a while, that I first learned the true and amazing saga of the PG&E/Raker Act scandal from the juicy, indignant stories of Peter Petrakis in this newspaper. I was astonished to discover how the bosses of city hall had run interference for our local electricity monopoly for 60 years, flouting a federal law, defying a U.S. Supreme Court decision and barring the people of San Francisco from access to our own public power. Every citizen's duty, clearly, was to try to fight city hall over this ripoff—but how?

Around this time I saw a flier on my neighborhood telephone pole announcing an action at a coming Board of Supervisors meeting at city hall. Some folks were planning a citizens' arrest of all eleven supes for failing to enforce the Raker Act, which requires the city to own the town's electrical distribution system. This was something I couldn't miss.

A couple of hundred of my fellow concerned citizens showed up, though we didn't manage to arrest any supes. Some of those worthies, including Dianne Feinstein, even seemed to think we were the ones who should be arrested. At any rate, the group's leadership decided to march the crowd out of the chambers chanting slogans exposing the legislators' lawlessness. The two I remember are "San Quen-

will soon be ringin'

The PG&E scandal and me

tin's the next stop/For Supervisor Quentin Kopp" and "Prison bells will soon be ringin'/For Dorothy von Beroldingen."

How I became a PG&E stockholder

It was several years later that I became a PG&E stockholder. I was a Guardian editor by this time and happened to get a call at home one evening from a stockbroker who wanted to sell me some shares of a new issue of PG&E preferred stock. It's a solid company, he assured me. I agreed it was a solid company and said I would take one share.

It cost me about $25, as I recall, but now I get a dividend check for 64¢ every three months, which works out to about a 10% return on my capital. The management several times has offered me the chance to reinvest my dividends toward more stock, but I like the security of getting that check in the mail.

With each check I get a nice quarterly report, which usually has some cheerful words about the improved outlook for getting Diablo Canyon on line one of these days, or a call to arms whenever the U.S. Congress or the California Public Utilities Commission is jeopardizing the stockholders' well-being by threatening to interfere with our company's profitability.

I also get the annual report, which contains more of the same and has color photos to boot. Last year's edition had the most vibrant photographs I have ever seen reproduced anywhere—shots of Diablo and the like, as palpable as a Viewmaster slide, representing a breakthrough in color printing, I'm sure—and it alone was worth the price of a share.

On top of all this, I get to cast my proxy vote in favor of the dissident stockholders' resolutions that somehow make it onto the ballot, such as the proposal last year to convert the Diablo plant to wind or solar generation. Another proposition last year would have barred the company from proceeding on Diablo until it knew what to do with the radioactive wastes. The company's management responds at length on all these things. Their response to the

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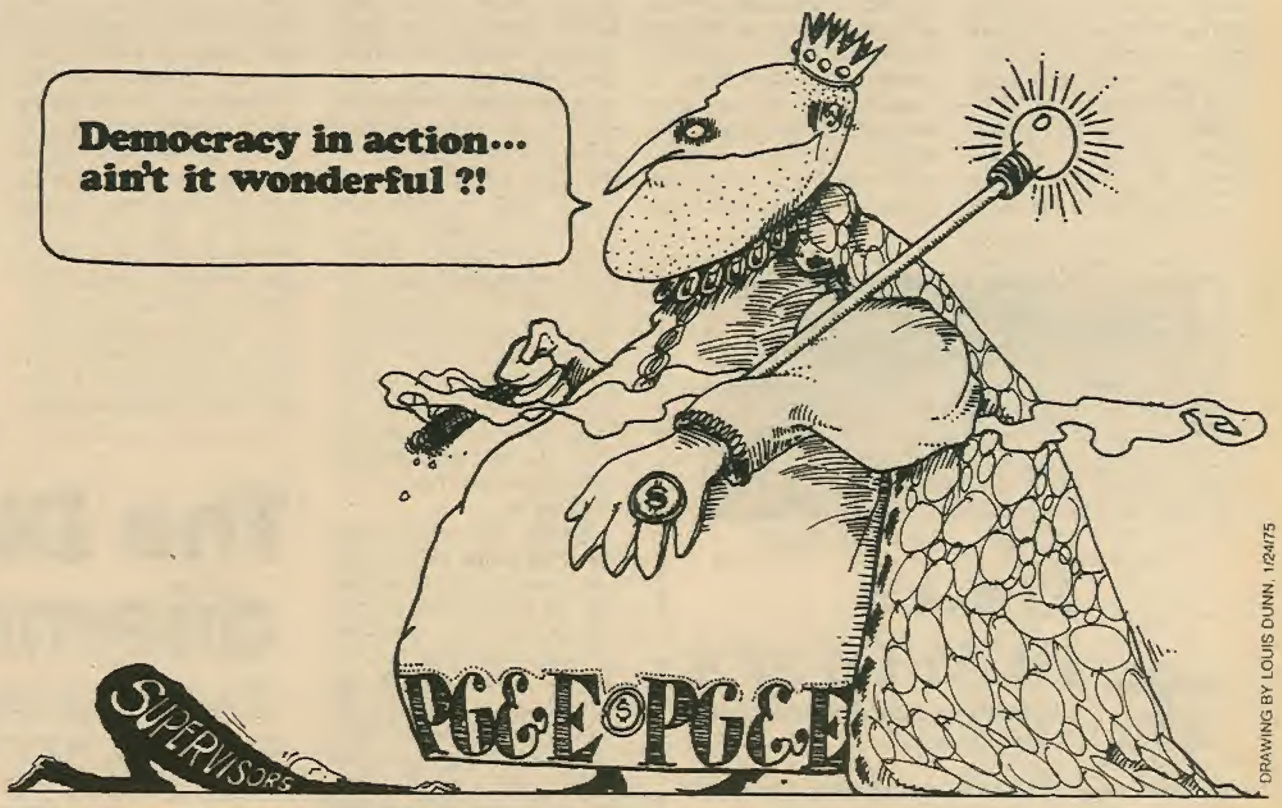

DRAWING BY LOUIS DUNN, 1/24/75

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waste problem was basically that federal law required the government to take care of nuclear wastes. So don't look at us, the company said in effect. (Now there's a federal law PG&E likes!) Everybody who can possibly spare the money should buy a share of PG&E.

Three public servants vote the public interest!

Early in 1979 I found myself back in the supervisors' chambers at city hall, this time reporting on the hearings of a supes' committee. The panel was considering Carol Ruth Silver's call for a feasibility study on municipalizing the city's electrical system. By now the Raker Act was going on 70 years old, and this was the furthest any proposal to enforce it had gotten in living memory.

PG&E was kind enough to send me a notice of the hearing. It began, "Dear San Francisco stockholder," and painted an alarming picture of this latest threat to our investment. Dozens, maybe hundreds, of my fellow stockholders packed the chambers. Most of them appeared to be members of the retired community, who had the time to spend a Tuesday afternoon at city hall.

On the committee was Quentin Kopp, a lawyer with no visible affinity for the federal Raker Act. Another member was Harry Britt, a consistent advocate of law-and-order on this issue. The chairman was Lee Dolson, who scheduled a quickie hearing that aced out many public power supporters from testifying, then disqualified himself from further action (such as rescheduling the hearing at the request of the proponents) on conflict-of-interest grounds after the Guardian reported he owned 400 shares of PG&E stock.

So the hearing came down to Kopp and Britt. As chair-for-a-day, Kopp gleefully browbeat the public power witnesses and encouraged the PG&E cheering squad and the company's well-spoken lawyer. But in the end, he went along with Britt's motion to hold another hearing a month later, which gave some public power people a chance to speak in favor of the radical notion of enforcing federal law in San Francisco.

This issue eventually got to the full board, where three supervisors—Silver, Britt and Gordon Lau—actually voted in favor of a feasibility study. The specter of three supervisors voting the public interest on this issue would not have been remotely imaginable at the time of the contemplated citizens' arrests just a few years earlier.

Among those who voted for PG&E was John Molinari, who on the campaign trail the previous fall had sat in a chair not five feet away from me in the Guardian office and said he would vote in favor of up to $500,000 for a feasibility study. Dolson ducked the vote, though he later told a public meeting, while he was seeking votes, that he would like to support a feasibility study—it was just that he wasn't allowed to get involved in PG&E-related issues because of his stock ownership. Still, he made no move to sell his stock and remove this onerous restriction.

The Guardian endorsed Kopp for mayor that fall anyway, which proved we didn't hold a grudge. Besides, his chief opponent, Dianne Feinstein, has always been as hostile to the Raker Act as anyone in city hall.

Till death do us part

Right after Dianne and Richard Blum were married, they stopped by the Washington office of then Secretary of the Interior Cecil Andrus, mentor of PG&E's all-time favorite supervisor, Bob Mendelsohn, as well as the man in charge of enforcing the Raker Act. Andrus told the honeymooners he had a wedding present for the bride: he was going to withdraw the federal government's longstanding objection to letting San Francisco gouge the city's out-of-town electricity customers with PG&E rates.

Some background: Since PG&E's allies at city hall have never allowed the city's Hetch Hetchy-generated hydropower to enter the city as cheap public power for the residents, as the law requires, they have found it convenient to sell some of the juice to folks between here and Yosemite. Among the takers have been the Turlock and Modesto irrigation districts, which distribute power to those Central Valley communities. Much to Feinstein's regret, the city had long-term contracts with these customers, with rates fixed for some time into the future.

When electric rates started to skyrocket in the 1970s, the city bosses decided city hall ought to be able to charge the same stratospheric prices as PG&E. But the feds sided with the out-of-town power customers, pointing out that hydropower was not getting any more expensive to produce, since it was essentially free.

Andrus' wedding present to Dianne was less appropriate for her marriage to Dick than for her more venerable union with PG&E. To allow the city to charge PG&E rates for Hetch Hetchy power is to remove the "yardstick" of public power, the everyday true-life example of what San Franciscans should really be paying for electricity.

Another effect of this federal action might be to inspire the Modesto and Turlock districts to proceed with a hoary scheme to dam the Tuolumne River, destroying one of the most majestic wild river canyons on earth. The purpose of these new dams would not even be to provide for basic electric needs, but to create additional "peaking power" on sweltering summer afternoons. In short, the hidden objective of this ruinous project is to provide cheap air conditioning for Modesto and environs.

San Francisco was a major partner in this project for many years, until Feinstein dealt the city out late in her 1979 campaign. The Feinstein camp, desperate to score points against the dread Kopp, was casting about for an environmental issue, and the Friends of the River came up with this one.

Still, much of the reason that the grandeur of the Tuolumne survives into 1982 is that it is virtually impossible to get any level of government these days to spend money on anything besides more nuclear bombs. Nuclear wastes, of course, can be reprocessed into plutonium. Could this be the government plan to deal with the effluvia of Diablo? ■

The Diablo Canyon dilemma:

your bill goes up whether or not the nuclear reactor goes on line

BY TIM REDMOND

If PG&E's Diablo Canyon Nuclear Power plant goes on line this spring as planned, your electric bill will go up.

If Diablo doesn't operate this spring — or any time in the near future — your electric bill may go up anyway, although probably not as much.

This seems to be the consensus emerging from all sides of the long-simmering Diablo controversy.

A Guardian investigation into Diablo's finances and operating potential shows that:

- PG&E has abandoned its long-standing claim that Diablo will have no effect on electric bills. Company spokesmen now tacitly admit the promised fuel savings from Diablo may not materialize. In an abrupt change of position, PG&E spokesman Dennis Pooler recently told the Guardian he "wouldn't speculate at this point" what will happen to electric rates when the $2.5 billion plant is added to the rate base.
- PG&E has poured such a vast amount of money into the plant that it has badly weakened the company's financial stability; financial analysts agree that if the customers don't begin to pay at least some of Diablo's construction costs soon, the giant utility could be in serious financial trouble.
- PG&E still officially refuses to consider the possibility that the plant might never

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operate. But Diablo's opponents think the plant is looking shakier every day, and the Public Utilities Commission admits that a disfunctional Diablo is a possibility they are studying.

• In the midst of its denials, PG&E admits it has studied the legal implications of Diablo failing to gain Nuclear Regulatory Commission approval, and says the company thinks it has sufficient legal grounds to force customers to pay for the plant whether it runs or not.

• If Diablo fails to gain licensing approval soon, both PG&E and plant opponents agree the battle will probably end up in the California Supreme Court.

For San Francisco ratepayers, the Diablo fiasco is an all-too-clear example of the problems inherent in giant, privately-managed utilities. As a private corporation, PG&E's main responsibility is to its stockholders — many of whom don't even live in California — not its customers. (See "Who owns PG&E," page 14.) There is little public accountability for the company's decisions, despite the existence of the state Public Utilities Commission. This is because, says William Bennett, former PUC president and currently a member of the State Board of Equalization, "Commissioners all tend to travel in the same circles as PG&E. They are far more sympathetic to corporate desires than customer needs."

Earthquake faults and cost overruns

Diablo Canyon's twin 1110-megawatt reactors make it the largest nuclear power plant in California. Its proximity to an earthquake fault, design problems, and cost overruns have also made it perhaps the most hotly-contested nuclear power plant in the country.

PG&E began constructing Diablo in 1967. Total costs were estimated at $350 million. Fifteen years and some $2.5 billion later, it still isn't running — opponents vow it never will.

The plant has been plagued with problems almost from the start. To date engineers have discovered upwards of 125 design and construction flaws, the most serious of which is a blueprint flip that resulted in earthquake support structures in Unit One being installed backwards.

So far, PG&E — one of the few utilities in the United States to attempt to build its own nuclear plant — has yet to do any major structural repair work on Diablo. Company officials have applied for an operating license anyway, hoping the Nuclear Regulatory Commission will allow the plant to operate "as is." That's important to PG&E, since repairs would take time and money, and the giant utility is so deeply mired in debt over the project it might not want to risk sinking fur-

ther resources into it.

As soon as the plant is licensed and begins full-power operation, the PUC will allow PG&E to add it to the rate base (see Rates article) and begin recovering costs and making profits on the plant.

By the time the plant is running, PG&E estimates it will have spent $2.5 billion on it. If the PUC allows the entire construction cost into the rate base, customers will begin paying more than $400 million a year for the privilege of using Diablo's electricity.

The cost of Diablo to the ratepayers includes PG&E's 12.2% return — determined as a "fair rate of return" by the PUC — on the entire investment, plus "depreciation" and operating costs.

Depreciation means the ratepayers not only pay for the "fair return" on the investment PG&E made in the plant, but also for the plant itself. During Diablo's estimated 30-year life span, 1/30th

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—Classes Directory—

PG&E likes to say, do you want the people running the Muni to run a public power system in San Francisco? Perhaps it's more fitting to say, do you want the people who brought us the Diablo Canyon nuclear debacle, with cost overruns up to 750%, to run our electric system in San Francisco and make us pay for Diablo mistakes.

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of the original cost will be added into the rates each year.

Diablo's operating costs alone may reach $100 million a year, PG&E says. That doesn't include money the customers must pay to replace any broken parts. It doesn't include decommissioning costs either. No nuclear power plant has ever been decommissioned, so it is impossible at this time to estimate the final costs.

PG&E maintains Diablo will replace the equivalent of 20 million barrels of oil a year. But the company hasn't burned that much oil since 1976. In 1981 PG&E burned 9.5 million barrels; in 1982 it expects to burn about a million, according to PG&E spokesman Greg Pruett.

A total wash

For years PG&E has contended that the plant wouldn't cost ratepayers an extra penny. The plant, Pruett said, was supposed to be a "total wash"; it would allow enough fossil fuel to be saved that the reduction in fuel costs would just about offset the costs of running the plant.

Now they're not so sure.

"At this point, I really wouldn't speculate what effect the plant will have on the rates," Dennis Pooler, a PG&E public relations representative, told the Guardian.

In theory, replacing 20 million barrels of oil, at about $40 a barrel, would result in significant savings. But since PG&E has markedly slowed its oil consumption, switching instead to cheaper hydroelectric power and natural gas, it remains unclear whether — and where — such fuel savings will materialize.

Pooler had no problem telling the Guardian how much energy the plant would generate and how much oil it would replace. But when asked to point out where — specifically — the company would cut back on fuel costs to save $400 million a year, Pooler said he "couldn't find the figures."

"The numbers I've been giving out are based on our figures from January, 1982," the PG&E spokesman said. "We haven't filed a revised application [with the PUC] yet, so I really can't speculate on the exact effect Diablo will have on the rates," Pooler said.

Thinking the unthinkable

Early in April 1982, the Chronicle reported that PG&E Chairman Fred Mielke is now considering plans for the company's finances in the event that Diablo never goes into operation. Officially, however, PG&E's position is the same it's always been: Diablo will operate. There is no other possibility.

"The Chronicle reporter misquoted Mr. Mielke," Pruett told the Guardian. "As far as we're concerned, Diablo not operating is totally inconceivable. It has to go on line, and no plans are being made for any other contingencies."

However, Public Utilities Commission officials dispute the company's iron-clad certainty. PUC spokesman Gene Rawley told the Guardian the PUC has begun research into the possibility of Diablo not operating, although "it's almost impossible to say what would happen — there's no precedent anywhere," he said.

Under the strictest interpretation of California law, PG&E would not be allowed to add the plant into the rate base — and begin to charge customers for construction costs — until it is operating at full power. If it never operates, PG&E would have to take a multi-billion-dollar loss. Since Diablo Canyon represents more than 25% of the company's total assets, the financial impact on the utility would be enormous, John Gibbons, the PUC's chief accountant, told the Guardian.

But just about everyone involved with the Diablo controversy concedes it isn't likely PG&E would have to shoulder the entire financial burden. "My understanding of the law is that, if the plant doesn't go into operation, the ratepayers won't have to bear the cost," Joel Reynolds, an attorney for the Center for Law in the Public Interest, the Los Angeles firm that's handling much of the legal work against the plant, told the Guardian. "But that's not to say it wouldn't be desirable for all parties to work out some sort of a settlement."

Reynolds also said his firm has seen studies indicating the possibility of converting the plant to coal or oil-burning electrical generation. "We're not saying it will have to become a museum," he said.

PG&E spokesman Pruett said the company feels it received the PUC's blessing on the project 15 years ago, when construction was just beginning. "The PUC said Diablo was a prudent decision back in 1967, and we don't feel it would be our responsibility to bear the costs [if the plant fails to operate]," he told the Guardian.

The Commission in 1967 issued PG&E a "Certificate of Public Convenience and Necessity" for Diablo Canyon. The routine decision allowed PG&E to begin operation on the plant on the tentative assumption that it would be admitted to the rate base when completed.

Reynolds told the Guardian he doesn't think the 1967 certificate legally protects the company from assuming liability for the plant. "The certificate didn't require the company to build the plant, nor does it indemnify the company if the plant fails," he said.

If Diablo does not go into operation, the PUC would have to decide how to handle the complex financial responsibility for the plant. Whatever that decision, however, both sides agree the losers almost certainly would appeal the case to the California Supreme Court, which has jurisdiction over PUC disputes.

Gibbons said the PUC might try to adjudicate the dispute by allowing PG&E to include in the rate base that portion of the plant that was built before new evidence — and cost overruns — should have caused the utility to reexamine its commitment to Diablo.

PG&E's financial rating drops

The massive cost overruns — nearly 750% more than original estimates — and lengthy delays in operation have already begun to take their toll on PG&E's financial stability. Both Standard and Poor's and Moody's recently lowered their approval ratings for PG&E's bonds and "commercial paper" (unsecured corporate notes), citing uncertainty over the future of Diablo as their rationale. If the plant is delayed much longer, the heavy borrowing necessary to finance it may begin to take its toll as PG&E is forced to pay off the interest on its loans out of earnings, a practice which dilutes the value of its stock.

To keep its dividends up, and to prevent Diablo from turning the company's financial statements more bleak, PG&E has been making use of an accounting gimmick known as Allowance for Equity Funds Utilized During Construction (AFDC). AFDC, Gibbons said, is a common accounting practice used by private utilities to charge their customers for risky investments that aren't yet productive. This procedure has become more common as nuclear plants absorb an increasing share of utility capital.

What AFDC amounts to is a method for the company to list on its balance sheet millions of dollars in income that exist only on paper. The idea is to pay this back later, when the plant in question has become profitable.

Gibbons warned, however, that nuclear plant construction has become such a lengthy and expensive process that the practice "is starting to get some companies into a whole lot of trouble."

So far, he said, PG&E has been able to absorb the deficits without much difficulty; if the plant is delayed much longer, however, it could spell serious economic problems.

Meanwhile, a new study on the Diablo plant is casting more doubt on its safety. A report released in July 1982 by Brookhaven National Laboratories, a Long Island, New York firm commissioned by the PUC to study earthquake support systems in one section of Diablo Unit One, questions the accuracy of the initial studies on which PG&E's claims of seismic safety rest.

Following the release of the Brookhaven report, PG&E agreed to "reverify" its seismic design at Diablo. However, the company has no plans to make any structural repairs, Pruett told the Guardian.

It's not surprising, then, that PG&E is in such a rush to get Diablo operating — earthquakes or no earthquakes, safe or not. If the plant doesn't run, the best the company can hope for is a long, expensive court battle. On the other hand, federal law limits the liability a utility can sustain in the event of a nuclear accident to $560 million.

Many ratepayers are terrified by the prospect of a questionably safe nuclear power plant operating near an earthquake fault. But the possibility of having to pay for electricity we will never use in order to keep Diablo cold is a bitter pill. PG&E hopes this will make a convincing argument for opening Diablo — come hell or high water.

Opposition to the plant, however, seems to be growing — rate hikes or no rate hikes. If PG&E customers had been asked — if the customers had owned the utility — the Diablo fiasco might never have taken place. ■

A 'mini-feasibility' study by a group of CPAs concludes:

San Francisco can buy PG&E's system in the city — and clear $21.9 million a year

DRAWING BY LOUIS DUNN, 6/5/72

BY PETER PETRAKIS

Excerpts from an article published originally in the Guardian, February 14, 1973

Pacific Gas and Electric Company, in a Sept. 3rd mailing to its 30,000 San Francisco shareholders, charged that a feasibility study on municipalization would only show it is a "flagrant waste of taxpayers' monies."

The company, however, failed to disclose to its stockholders that the only study ever made of municipalizing PG&E—prepared in 1972—predicted the city could profit by as much as $21 million dollars a year immediately on acquisition without raising rates.

Peter Petrakis, in an article published by the Guardian on February 14, 1973, revealed the facts about municipalization PG&E does not want its shareholders—or the citizens of San Francisco—to know:

In the spring of 1970, the Guardian and some citizen's groups formally asked the SF Public Utilities Commission and the Supervisors to fund a detailed feasibility and engineering study on buying out PG&E. Both refused.

Instead, they listened to Oral Moore, general manager of the city's Hetch Hetchy water and power facilities, who told them it would cost the city $200 million to buy out PG&E and set up a municipal power system. And the PUC commissioners and supervisors listened to PG&E lobbyists who contended this was much too costly and difficult for the city to do.

However, Moore's $200 million estimate glossed over the most crucial point: once the city makes the initial investments (through municipal revenue bonds) to purchase PG&E's system, the city will receive those millions now going to PG&E and its major out-of-state stockholders.

And city power revenues, according to an authoritative new study by an independent group of certified public accountants, will be enough to pay the annual operating costs of the system, the annual cost of retiring the bonds, with as much as $21.9 million left over each year for the city and the public to use.

That $21.9 million could do the city a lot of good. It is $4.3 million more than the city's share of federal revenue sharing funds. It is more than the city makes from the "sewer tax," which has practically doubled every resident's water bill. It is $2 million more than the property tax subsidy for Muni and five times greater than Muni's current annual deficit. It is four times more than what PG&E pays the city in all taxes and franchise fees on its electric properties.

Municipal power distribution would earn millions more for the city's Hetch Hetchy system than is currently permitted by the collusive PG&E/City Hall arrangements that dump Hetch Hetchy power in unprofitable out-of-town markets.

Accountants for the Public

The CPAs who made the study are members of a foundation-funded, public interest accounting firm, Accountants for the Public, headquartered at 351 California Street, that is composed of 21 CPAs and educators (from UC, SF State and USF) who work on public interest accounting projects in their spare time.

The firm, headed by Morton Levy, a San Francisco CPA, did the financial research for the precedent-setting suit against three New Orleans hospitals for violating the Hill-Burton Act and refusing to provide free medical care to the poor. It has also, among other things, done financial analysis of the SF school district (on behalf of the PTA), Yerba Buena redevelopment (on behalf of SF Neighborhood Legal Assistance Foundation) and on PG&E's latest application for a gas rate increase (on behalf of SF Consumer Action).

In its public power study, prepared for the SF Neighborhood Legal Assistance Foundation and Citizens for Public Power, Accountants for the Public made a range of estimates of the costs to the city in buying either part or all of the existing PG&E system.

It figured the costs and expected revenues at six separate levels of bonded indebted-

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